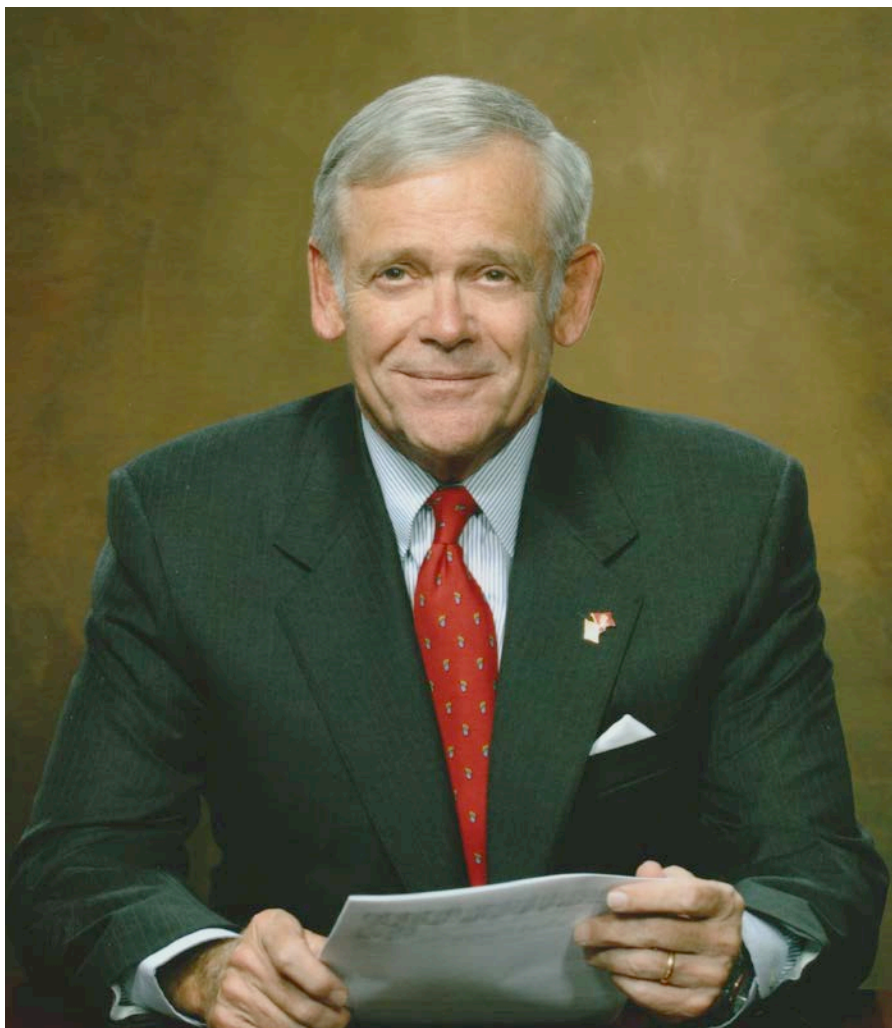


FINANCIAL HISTORY

THE MAGAZINE OF THE MUSEUM OF AMERICAN FINANCE



Leading by Example: Tribute to the Life of William H. Donaldson

Savings & Trust: The Rise and Betrayal of the Freedman's Bank

Words of Wisdom: Remarks from the 2025 MoAF Gala

ISSUE 153 | SPRING 2025

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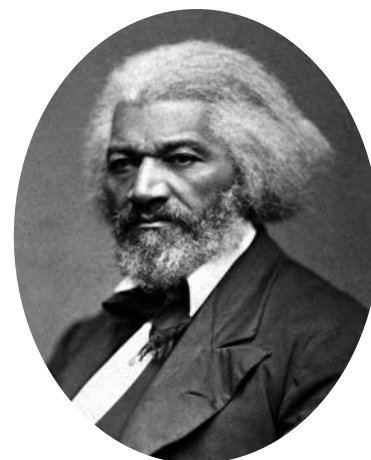
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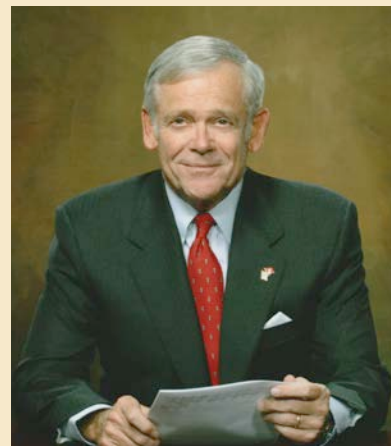
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Museum of American Finance Announces Plans for New Exhibit Headquarters in Boston

EXCITING THINGS ARE HAPPENING at the Museum this Spring. On March 6, we honored Dick Gephardt, Peter Lynch and Art Cashin, Jr. at our annual Gala, with more than 400 of our friends and supporters in attendance at the Ziegfeld Ballroom in midtown Manhattan. The remarks delivered that evening were truly inspiring and can

developed by Pembroke. The Museum will occupy approximately 5,400 sq ft, with an additional 2,300 sf community room adjacent to the exhibit hall that will be available for classes and public programs. Exhibits are scheduled to open to the public in July 2026. Entrance to all of our exhibits and programs in Boston will be free of charge—eliminating barriers to entry and reflecting our core mission of making financial education accessible to all.

Visitors will leave our Museum with a greater understanding and appreciation for our nation's financial history—much of it centered in the Boston Harbor area—as well as knowledge that will help them better their own financial lives. And, while our exhibits will soon be based in Boston, we will continue to offer in-person programs in New York City, as well as virtual events and classes that can be accessed from anywhere in the world.

As planning begins for our new exhibits, sponsor packages and naming rights are now available. The individual galleries will each focus on a particular aspect of our collection and our mission to advance financial education. Please let me know if you are interested in exploring sponsorship opportunities in Boston. Additional information on this project can be found at www.moaf.org/Boston. \$



Message to Members

David J. Cowen | President and CEO

be found on page 5 of this issue. Also that evening, I announced that earlier that week the Museum had signed a 10-year lease on a brand new exhibit space in Boston.

Planning is now underway to develop and create our exhibits at Commonwealth Pier, the waterfront destination in Boston's Seaport that is currently being

Our opening in Boston marks the first time we will have a permanent exhibit headquarters since we left our former home at 48 Wall Street in 2018. We are working with the renowned firm Gallagher & Associates to create world-class exhibits that draw from our collections—while integrating the latest technologies in a partnership with the Fidelity Center for Applied Technology (FCAT).



Rendering of the exterior of the Museum of American Finance's new home at Commonwealth Pier in the Boston Seaport, scheduled to open in July 2026.

Pembroke

WORDS of WISDOM

Remarks from the 2025 MoAF Gala

At the 2025 Museum of American Finance Gala on March 6, the Museum honored Richard A. Gephardt with the Whitehead Award for Distinguished Public Service and Financial Leadership and Peter S. Lynch with the Lifetime Achievement Award. In addition, there was a Special Recognition Tribute to Arthur D. Cashin, Jr. (1941–2024). Excerpts from the remarks delivered that evening are published below.

BOB PISANI

Senior Markets Correspondent, CNBC



Our first presentation is to a man *The Washington Post* called Wall Street's version of Walter Cronkite. I spent 27 years sitting by this man's side. He had an incalculable influence on me. Art Cashin was my friend and, most importantly, he was the rarest of all creatures. He had no natural enemies. You would think on Wall Street people have enemies. They do, but Art Cashin was a man who was beloved by everyone—bulls and bears and conservatives and liberals. Nobody ever had a nasty word to say about Art Cashin. Art was UBS's Director of Floor Operations at the New York Stock Exchange, but he was a lot more than that to all of us, and particularly to CNBC where he was a regular on our air for 25 years. As many of you know, Art Cashin passed away in December at the age of 83.

What made Art Cashin such a wonderful, likable guy? His success was, I think, attributable to a combination of charm, wit, intelligence and an absolute refusal to conform to the modern world. He did not have credit cards. He carried cash everywhere he went. He didn't use a computer. He had a beat-up flip phone. He didn't like cell phones. He didn't like a lot of things of modern convenience, but he was a man of tradition. Every year on New Year's Eve, he led the singing on the floor of "Wait Till the Sun Shines, Nelly," a 1905 song, and we continued that tradition this year, despite his absence.

There were days he came in looking like he was a homeless person. His suits were rumpled. He had ties that were from the 1950s. But it was a very carefully constructed

persona. It looked like it was casual, but he knew exactly what he was doing. He joined Paine Webber in 1980 to manage its floor operations. He continued to do so after it was acquired by UBS in 2000. Then, on September 11, 2001, he'd often recall his escape from Ground Zero when terrorists crashed into the World Trade Center. He chaired the NYSE's Fallen Hero Fund and raised millions of dollars for charity. He was a remarkable market historian. I spent hours and hours sitting and talking with him about the history of the market, and the most important thing is he never let data get in the way. He knew the data, but the most important thing to him was the ability to tell a story; for him, narrative always triumphed over facts and data.

He was a market historian, but he was not an academic, and he made that very clear. He had a huge influence on the way I look at and cover the markets. He had two great loves in his life—his family and the New York Stock Exchange. At the time Art joined Wall Street, the vast majority of trading took place on the floor. When I got there in 1996, there were 4,000 people that did 80% of the volume. That was his world. He lived in it. He ruled it. His early memories revolved around the noise of thousands of brokers shouting at each other. He claimed to be able to tell if the market was moving up or down by the pitch of the screaming among his many friends, including a group known as the "Friends of Fermentation." I was a member as well.

We assembled every day after trading halted. Perhaps he'll be best remembered for his modesty. Art Cashin was one of the great raconteurs, storytellers and drinkers in the history of Wall Street. Going out with Art Cashin for the night was like participating in an episode of *Mad Men*. You'd go out and you'd sit down and he'd order his

favorite drink, Dewars on the rocks. I'd order bourbon and an hour and a half later, you're still there with Art. Art was a slow drinker. An hour and a half later, you're on your third drink with Art, and then he starts ordering dinner. First thing, Irish caviar. That's pigs in a blanket. Then the French fries, then a hamburger, then maybe a steak. And most of the time, I never made it to the steak. I never even made it to the French fries. In the middle of the second drink, he'd say, "Now, Bob, I heard what you had to say on the air. It was very good, but you missed something." Great, now I'm going to hear a lecture from Professor Cashin about how I screwed up today. Invariably, though, he was right, which was really annoying. He invariably helped improve my reporting, and I got better and better. He stood up for me when I came down there in 1996. 4,000 people on the floor. You want to know what loneliness is like? 4,000 people on the floor—all of them potential stories and sources—and nobody will talk to you.

Art Cashin was one of the few who stood up and said, "This guy Pisani is okay." I'll never forget that. You never forget somebody who helps you like that. I know tonight he'd be honored, but also a little bit puzzled, as to why we've singled him out for this Special Recognition Award.

ARTHUR AND PETER CASHIN

Sons of Arthur D. Cashin, Jr.



Thanks, Bob and thank you to the Museum of American Finance and its Board for choosing to honor our father with this recognition. It's still impressive to us to hear his name grouped with the Honorable Dick Gephardt and esteemed Peter Lynch. As we read up on

the Museum's mission, its mandates to preserve history and educate the public, it spoke to us as a family. We wanted to say just a few words about how Dad tried to honor the history and educate people about the American financial system.

Becoming part of the NYSE and being a part of the NYSE's role in the history of American finance was never lost on our father. At the age of 23, a poor kid from Jersey City went to sign the same member's roster as JP Morgan and John D. Rockefeller, and this was an accomplishment that he was so proud of. I got to sign it, many years later. He went to work every day at what he called the "Cathedral of Finance." In fact, I once set up a tour for a friend of mine with my dad, and he likened it to getting a tour of the Vatican from the Pope. He knew his history backwards and forwards.

As for education, some of that started at home. While other kids were into comic books like *Howard the Duck*, our father brought us the ones from the New York Fed explaining how banking and money supply worked. Those were kind of hard to trade! It was an early lesson about supply and demand. Many people in the industry were scared once the reporters got live access to the floor of the exchange. But Dad's thought was, "If they're going to be telling the story, let's make sure they get it right." That began his efforts to educate the reporters on the most important of the five Ws: the why of the story. As Bob can attest, Dad thought the why was the most critical. His hope was that by educating the reporters, he would have some part in educating the investors.

Dad's respect and possibly even love of history and education was born in his Jesuit experience, with critical and analytical thinking. He certainly excelled in applying that to the markets, and he made sure that he applied that to our lives. Those were the tools he brought with him when he entered the financial arena. We are proud to have the current president of his alma mater, Xavier High School, here to honor that dimension of Dad. Our family is working with Xavier to establish multiple scholarships in his honor. In closing, our family would like to thank the many friends who are here to honor Dad. We hope you support the Museum and its efforts to preserve our history and educate [individuals], and we hope that it will strengthen our economy and our society.

ADMIRAL BILL OWENS

US Navy, Retired



What a pleasure to be here at the Museum's Gala. I just want to tell you about this special guy, Dick Gephardt. When I was senior in the military, I spent a lot of time in Congress—a lot of time to observe what was going on there and a lot of time with people who really mattered, who served this country. And I think that's really my emphasis tonight. When you look at those who truly served—these people like Dick Gephardt, who were there for everyone across the aisle—these people were always thinking of what was the best thing for this country. They did these many important things. And I have to ask, where are these people today?

I've served with Dick on several boards, always looking to him for knowledge. And, of course, the boards were always interested in who was going to win the next election. He was never wrong, and we all benefited from Dick Gephardt's involvement in those boards and in the lives that we all led because he cared. And so, I was a senior partner at AEA Investors, which was one of John Whitehead's places, and it just gives me a huge amount of pleasure to let you know that this is a unique individual side-by-side with many of these awardees of the past: Robert Rubin, Janet Yellen, etc. This is a public servant of this country, and God bless him.

I never saw anybody in Congress or the Senate who ever disliked Dick Gephardt; even though he took different positions, he was never taking shots at them. And he was a man who all of us in the military looked up to enormously. We knew he was there for the US Constitution and was there as a member of Congress for the people of this country. When it comes to public service, they don't come better than Dick Gephardt.

Now, I want to conclude my comments by telling you about an old admiral friend of mine who was in his late 90s, and he said, "Bill, I want you to remember something in your life." He said, "One of the great blessings that has come across my awareness in the last couple of years has been for men to reflect on their lives and reflect on those very few people who made a big difference in their lives, and be able

to tell them about it and to say to them, 'I love you.'"

I want to tell you friends, as I look back on my life, and I've been blessed to be in the military for a long time and a lot of time in business, I love Dick Gephardt. He's one of those handful of people who stands truly on top of the stack, and we're so honored to be here tonight to honor him.

RICHARD A. GEPHARDT

*Former Democratic Leader,
US House of Representatives*



Thank you, Bill, and I love you. It's a great honor for me to be here tonight being honored with luminaries like Art Cashin and Peter Lynch. And I have to say something to Peter that I didn't get a chance to say to him earlier tonight. When you're in Congress, you don't make money, you're in it for service. When I got out of Congress, after I made a little bit of money, I think I had \$5,000 in the bank. I decided I needed to figure out how to invest the money so I could make more money. And I talked to a lot of people and they said you've got to be in the Magellan Fund. And I said, what's that? And they said, it's a Fidelity fund and you ought to put your money in there. And they have a fabulous record and they've got this guy, Peter Lynch, who is an awesome investor on your behalf once you put even a dollar in the fund. So, Peter, I made money on the Magellan Fund. Thank you.

I am a big fan of this Museum, and as you heard tonight, it has played a vital role in educating Americans and especially young Americans on the crucial role that finance plays in our fabulous economic history. In the past 80 years, America has had the best economy of any country in the world, and it's not just a great economy for a few people; it's a great economy for all the people. Listen to these numbers. In 1950, the per capita annual income of Americans was \$9,000. In 2023, annual per capita income was \$81,000. No wonder that millions of people from all over the world are risking their lives and their families' lives to get here, to be part of this incredible American economy. What are the elements that have allowed this to happen? I think there are four: democracy, freedom, rule of law and capitalism.

All four have to be present in order to have the economic performance that

we have had. The crucial foundation of this capitalist system was set in place by people like Alexander Hamilton, and they achieved establishing the public credit. They created the first Bank of the United States, the US Mint and a lot more. This foundation has had to be amended and improved by generations over our nearly 250-year history. In the 1990s, I had a minor role with 10 years of very hard work on the part of 535 members of Congress, two different Presidents and countless citizens like Admiral Owens who helped us achieve a balanced budget. And believe it or not, many of you may not remember this, we had a surplus for four years at the end of the 1990s.

We even had discussions with Bob Rubin, who was Secretary of the Treasury, about what are we going to do with the surplus? That's a high-class problem. That's what we—working together—achieved. Since 1950, there are only four years that we had a balanced budget: 1999, 2000, 2001 and 2002. I was Democratic Leader in the House in 1990 when we started on the path to a balanced budget. The President then was George HW Bush, who I loved. He was a Republican; I'm a Democrat. He called the leaders down to the White House four times because we had this big deficit that was left over from the Reagan administration, which he was part of. And he said to us, we've got to have a budget summit. We've got to get rid of this deficit. We've got to work toward a balanced budget.

And the Democrats said to him, is everything going to be on the table? And he said, yes, everything's on the table. Except taxes. I can't put taxes on the table. He said, "I gave a speech when I got nominated for the presidency in Houston, and I said, 'Read my lips. No new taxes.' I can't go back on that promise." We said, we understand. We appreciate that, but we're not coming to a summit. We don't know what we're going to do, but we've got to have all the options in front of us.

The fifth time he called us down to the White House we had dinner in the Oval Office, and he looked at us before we got the food and he said, "Okay, I get the joke. We're putting everything on the table." He handed a press release to Marlin Fitzwater (White House press secretary), who was standing behind him, and we said, great. We're going to do this. We went out back waiting for the cars to pick us up and take

us back to the Capitol, and President Bush is standing next to me and he's going foot to foot. He's nervous as a cat. I said, "Mr. President, what's wrong?" He said, "The fat's in the fire." That's leadership. Leadership is taking on your own side, not the other side.

And so that started nine months of negotiation. I led the effort for the Democrats. Bob Dole led it for the Republicans. Dick Darman was the budget director and he was the liaison to us from President Bush. For nine months, we had all the Senators and House members in rooms for hours on end trying to negotiate the cuts that we were going to make in the budget. And by the time we got into the fall of the year, I could see we were never going to get this done because reporters were coming up to people saying, "Hey, we hear you're going to cut Social Security. We hear you're going to cut Medicare. Would you vote for that?" I said, "We're not going to have any votes for anything. We've got to get these people off the campus." So we went to Andrews Air Force Base for 10 days and nights and locked up 120 members of Congress to negotiate the deal to get it finished.

We finally got it done. We finally passed it by one vote in both houses. After it had passed, I was the last person on the floor. It was right before the holidays. And when I walked off the floor to the speaker's lobby, there was only one person there. That was Dick Darman. And we hugged and cried because we knew how hard this was, but what joy we had that we were able—working with everybody—to get it done.

Then Bill Clinton defeated President Bush in the election in 1992, and President Clinton invited the Democratic leaders down to Little Rock in the state capitol to have dinner to talk about what should our plan be in the early part of the administration. And everybody said their piece. I think a lot of people wanted to do health-care. When I got my chance to talk, I said, "Mr. President, we just went through an excruciating exercise to get halfway toward a balanced budget. We have to finish the job." To his great credit, he said, that's what we're going to do. And that's what we did.

So again, we worked for nine months to put together the cuts, and it was the last time the gasoline tax was increased by three cents. That was the only tax in the package. And then once we got it negotiated, I had to go around and get the votes. And I'd go

to members and say, we've got to do this. I know it's hard politically. I know you're going to anger people in your district. And often they'd say to me, I should vote for this. This is the right thing to do, but I can't do it. And I'd say, why? And they'd say, I don't think I can get re-elected. And I would say, why did you come here?

If what you just told me would've been said by the young people who assaulted the beach at Normandy, we'd all be speaking German. They put country over self, and that's what you have to do. Sometimes they did; sometimes they didn't. But we passed it by one vote. And I'll never forget as long as I live, when the vote was starting to end, it's on the electronic screen in the house floor. And I had asked the freshmen to hold back because I didn't know if we had the votes. Everybody wanted to vote no, but have it pass.

And most of the freshmen did hold out, but when the vote ended, it was tied and only one freshman—a woman from Pennsylvania—had not voted. I went over to Marjorie Mezvinsky and I said, Marjorie, this is it. Forget about me. Forget about your colleagues. Forget about Bill Clinton. Forget about the Democratic Party. This is about the country. If we lose, we can never come back to where we are right now. She said, "I'm going to lose my election." I said, "I know. We'll do everything we can to help you." And she said, "Okay, I'll do it." She walked down and she plopped on her green card. The Republicans stood and waved and sang, "Bye, bye, Marjorie." She lost the election. She went to teach political science at the University of Pennsylvania. And she'd always call me every year and say, "I want to bring my class to DC. Would you talk to them?" I said, "Of course." And she would bring her class in and I would introduce her to her class. And I would say, "Marjorie—your professor—is my hero of democracy. She put country over self, and that's the test of any public servant."

So now, as you heard a little earlier, the national debt is over \$36 trillion. Our interest cost is greater than the entire budget for national defense. Just think about that. There's not even a discussion today about balancing the budget. Nobody brings it up. And right now, there's an understandable desire on the part of the new administration to go around the Constitutional framework and just cut the budget without Congress. Just push Congress aside and just do it with

the executive branch. I understand the frustration, but I hope and pray that they will ultimately stick with the Constitution and the separation of powers.

I was in Congress for 28 years. I was leader for about half that time. I saw a lot of big, tough, controversial issues get decided. I mean, people were amped up on both sides of the issue. But we finally got the compromise with these budgets. And what I was in awe of was that even though when we got the thing done, about half the people in the country were very angry at that outcome. They didn't get enough. They gave too much. They were angry, but they didn't want to pick up a rifle. They didn't want to leave the country, because they thought the process was fair. They were heard. They had a vote. They just didn't win this time; maybe there'll be another time. So they were willing to grudgingly put up with that result. That, ladies and gentlemen, is the majesty, the magic, the power of democracy.

It's really called consent of the governed. In 1789, our founders had a radical idea. They believed that we could govern ourselves. They didn't want a king. They didn't want a pharaoh. They didn't want a potentate. They wanted all of us to govern ourselves. When they were finished writing the Constitution, when Ben Franklin came out of Constitution Hall, there was a crowd and they had a question. They said, "Mr. Franklin, have we decided to have a republic or a monarchy?" And he said, "We've decided to have a republic." And then he turned to walk away. But then he stopped and he came back and he said, "We have decided to have a republic if we can keep it." We have been keeping it for nearly 250 years, and I believe in all my heart that we're going to keep on keeping it for many years to come. Thank you for this honor.

DENNISON (DAN) VERU

Chief Investment Officer,
Palisade Capital Management



I'm honored to be introducing Peter Lynch, the 2025 recipient of the Lifetime Achievement Award. Peter has lived a rich life devoted to his family, faith

and profession, while changing the lives of so many people through his philanthropy and wisdom. When you search for the most

recognized equity mutual fund managers of all time, the first name that appears is Peter Lynch. Simply stated, he defines the investment management industry, and the financial history of our country cannot be written without noting his extraordinary contributions through his insatiable curiosity for information, 80-hour work weeks and refined analytical approach. Fidelity's Magellan Fund had an annualized return over 29% from 1977 to 1990. Dick, I hope you were in during that period, which was more than twice the return of the S&P 500 over the same period. The assets of the fund grew from \$18 million under his stewardship to \$14 billion, which certainly helped catapult Fidelity to the top of the financial services industry.

His investment process was simple. He picked growth companies at a reasonable price, coining the term GARP (Growth at a Reasonable Price) by applying an intense bottom-up analytical process and a broad cross-section of industries. In the process he changed the financial lives of everyday people who invested directly or indirectly in the fund. I can tell you first-hand that his passion for stock picking continues today.

In 1990, Peter turned 46 and was at the peak of his success when he suddenly decided to retire from the daily management of Magellan—exactly 13 years to the day from when he started—in order to spend more time with his family. In his book *Beating the Street*, he stated, "When you start confusing Freddie Mac, Sallie Mae and Fannie Mae with members of your own family, and you remember 2,000 stock symbols but forget the children's birthdays, there's a good chance you've become too wrapped up in your work."

He shifted his priorities to philanthropy with his beloved late wife Carolyn, while also mentoring the next generation of investment professionals at Fidelity. His contributions to education, health-care and the arts have made an indelible impact on his community and on the lives of so many people. I've seen for myself the impact this man has made on the lives of children through his support and devotion to the Catholic Schools Foundation, a charity that Palisade has proudly supported almost since its inception. In April 2023, Peter was honored by the Catholic Schools Foundation for his 33 years of service, educating the neediest children and preparing many of them for the elite colleges and universities they would attend.

Though he no longer manages Magellan, Peter continues to have a role at Fidelity mentoring the next generation of investment professionals, and he remained the face of the firm through the 1990s. He also published three best-selling books on investing, believing that the average investor could pick stocks like the pros if they worked at it and followed simple principles. In one of his books, he stated, "Your investor's edge is not something you get from Wall Street experts. It's something you already know. You can outperform the experts if you use your edge by investing in companies or industries you already understand." These books were way ahead of their time, as they democratized the investment process for anyone willing to do the work.

Today, Peter continues to focus on philanthropy and still has the passion and intellectual curiosity for stocks that he had decades ago, but clearly his priority remains his family, especially his 10 grandchildren, who he proudly displays on the back of his iPhone. Recently, David Cowen and I brought some of the important items in the Museum's collection to his home in Boston, and we had a great discussion on the historical significance of each item. He's a passionate historian and lover of history. However, when it was time for him to see his grandchildren, the meeting abruptly ended. As we quickly collected the irreplaceable artifacts, Esther, his miniature dachshund, ushered us to the door so she and Peter could get to his beloved grandkids on time. Ladies and gentlemen, please welcome my dear friend, my mentor and a living legend, the one and only Peter Lynch.

PETER S. LYNCH

Vice Chairman, Fidelity Management
and Research Company



It's just so amazing to be here tonight. David Cowen and Dan [Veru] came up and talked about something I knew nothing about—and I love history—about the start of our country financially. How do you do it when every one of the colonies has its own currency? They have their own dollars; they have their own bonds. I mean, how do you make that work? How do you get that all together? These people in Pennsylvania, maybe they don't get along with people in Virginia. I can't imagine the jealousy and human emotion between the people in

Virginia, Pennsylvania, Delaware, Massachusetts about—wait a second, their bonds are selling for 30 cents. Our bonds are selling for 80. How is this all going to work? But we made it through that.

Then we had several depressions. They call them panics. We do that in the stock market. When the stock market goes down 10%, we call it a correction. Like, oh, I thought I lost a lot of my money, but that's just a correction. So, this is called a panic. We had several of those panics and then we had the Great Depression, and I never understood that adjective "great" in front of depression. It could have been miserable, terrible, chronic; I mean "great" just doesn't seem to apply. But we had the Great Depression. And we have had 13 recessions since the Great Depression, and we got through them relatively fast. We've never had another depression. What's happened? What's happened in this country? And that's what finance is about. And a lot of it has been achieved by our Congress.

In 1913, we started the Federal Reserve. We have a bank looking over all the banks and they sort of dropped the ball in the depression. They raised rates, but everybody's entitled to a bad start. But really important things happened in the 1930s. Imagine the FDIC in 1934. Imagine if your bank goes under and you don't have your money. That's kind of scary. The FDIC has been an incredibly successful program. No one has ever lost a dime in a bank since 1934. Maybe in bank stocks, but not in the bank itself. So, I love banks. Not all the bankers, but I love banks.

The SEC went into business in 1934. The Securities & Exchange Commission looks at securities; this is a thing preventing fraud. There were so many bad things going on in the 1920s. People say the stock market caused the depression. In 1929 the market went down, but less than 1% of Americans owned stocks. The economy was out of control. It was just a bag of gas and it all exploited; it had nothing to do with the stock market. So, in 1934, we started the SEC. They got Joseph P. Kennedy—a stock market guy who knew all the nasty and good parts of it and was President Kennedy's father—to run the SEC.

But even more important than that, the next year we started Social Security. What a great deal. People used to retire older and then move in with their kids, and the kids had to stop spending. It just didn't work. 71 million Americans are going to

get a check this week from Social Security. Spectacular program. We also the same year set up an even better one; it's called unemployment compensation. It's paid for by companies. If you get laid off, you get a check for 6, 9, 12 months. I mean, these are all great buffers. That's why we've had all these recessions and they go away. And this is a great tribute to our Congress; great progress from our business world.

And then we started Fannie Mae, Freddie Mac, Sallie Mae. People can buy houses with 5% down. We're talking buying a house in the 1950s for \$6,000 or \$7,000, and 30 years later, it's worth \$80,000 or \$90,000 and you pay off the mortgage. Whereas a person three blocks to the right is paying rent that's gone up over 33 years. I mean, these are brilliant programs. Consuelo [Mack] and Bob [Pisani] talked about financial literacy. It's incredible how little people know about all these wonderful things that exist to help all of us—whether you're Warren Buffett, Charlie Munger or a 12-year-old living in Newark.

And then there's a lot of fear now about AI—how AI is going to ruin the world. There'll be no jobs. In fact, it was funny, I was on a call the other day with the CEO of a company. It was so embarrassing; he was calling it "AI" several times. I'm like, "That's a steak sauce!" One of my 11-year-old grandchildren was standing right there, and she knows what artificial intelligence is. She's all over it! Anyway, don't be afraid of artificial intelligence. In 1984, we split up AT&T. There were 100 million employees in America, and AT&T had one million of them. Since then, the amount of business with cell phones and data and texting and videos has gone up 50-fold. T-Mobile, Verizon and AT&T today have 3.25 million employees. They've gone from one million to 3.25 million. We've gone from 100 million jobs to 158 million jobs. People said it's going to be all over when this company breaks up. People have such fear, but it's such a great country. Dick [Gephardt] mentioned the reasons why people want to come here. It's a spectacular place to be.

And then I want to talk about small business. There are 35 million small businesses in America with less than 500 employees. They employ 61 million Americans. That's up 15 million in the last 15 years. That's where the real growth in the country is. Some of these grow larger; some stay the same. And where do they

get their money? From a local bank. [Nike founder] Phil Knight went to a local small bank in Oregon to finance his inventories and his receivables. Nike's done pretty well. There was a bank involved there. Mortgages come from banks. Loans come from banks. They take deposits and turn them into loans. And it's so important that all this occurs. And then once companies get larger and when they go public, then institutions like Fidelity and pension funds and college endowments can invest in them. But they have to get going.

Look at all the successful companies we know today. They all started very small, with their own money and they borrowed some money. When they get large enough, they can go to venture capital firms or buyout firms. But they need to start. And that has made our country fantastic. And this Museum is so important. I mean, they literally had a poll one time. They asked 100 people in their 30s what the Federal Reserve was. And the vast majority thought it was a very expensive bourbon.

We've got to get the word out. Finance is so important. It makes such a difference for everyone. Whether you're starting to get a job or whether you're retired, finance is important and it's not appreciated. It's not understood, [and that's] what this Museum is doing. I'm so excited to learn about it and talk about it and just think about what public companies have achieved. Companies like Home Depot, TJ Max and Costco. They've lowered costs to people, with better products, and they've made money for shareholders. Everybody's won.

And it's important now to know about stocks, know about investing because two generations ago you worked at a Xerox, IBM or US Steel, and you got a pension fund. You got X amount of your salary for the rest of your life. Those don't exist anymore. If you don't save, and you don't know where you're putting your money, you're going to have a problem down the road. So, it's kind of interesting that we finished with public companies because exactly next year it'll be 400 years since Peter Minuit with the Dutch West Indies Company—a public company that you could have bought shares in 400 years ago—bought this island for 60 guilders, or \$24, from the Native Americans. That was a very successful public company.

I'm so honored to be here tonight and the Museum is a great thing we have here. Let's get it a lot bigger. Thank you. \$



Photos: Alan Barnett

1. More than 400 MoAF supporters attended the annual Gala on March 6, 2025. **2.** MoAF Board Chair Peter Cohen highlights objects in the Museum's collection during his remarks. **3.** The 2025 Gala awards. **4.** Museum Finance Academy (MFA) alum Lina Lin discusses the impact the MFA has had on her life. **5.** MoAF President David Cowen announces plans for the Museum's new exhibit headquarters in Boston. **6.** Dinner guests at the 2025 MoAF Gala at the Ziegfeld Ballroom. **7.** Emcees Consuelo Mack and Bob Pisani. **8.** Arthur and Peter Cashin accept the award presented in honor of their father, Arthur J. Cashin, Jr. **9.** Dennison (Dan) Veru introduces Peter Lynch. **10.** Richard A. Gephardt accepts the 2025 Whitehead Award. **11.** Peter S. Lynch accepts the 2025 Lifetime Achievement Award. **12.** Admiral Bill Owens introduces Richard A. Gephardt. **13.** Members of the MoAF Board of Trustees at the 2025 Gala.

Why Kemmerer, Wyoming Matters: Part 3

By Brian Grinder and Dan Cooper

ENERGY PRODUCTION has always been the life blood of Kemmerer, Wyoming. The town was named after Pennsylvania coal magnate Mahlon Kemmerer, and for most of the town's existence, coal mining was the economic fuel that powered the community. Coal from the Kemmerer Coal Company mines fueled Union Pacific and Oregon Short Line trains as they made their way through the vast expanses of Southwestern Wyoming.

One of the darkest moments in Kemmerer's history occurred on August 14, 1923, when an explosion in one of its mines killed nearly 100 coal miners, sending shockwaves through the small western outpost. Coal production continued unabated for decades as the energy demands of a growing nation increased dramatically, and Wyoming eventually became the number one coal producer in the United States.

However, climate change concerns slowly began to erode coal's popularity, along with all other fossil fuels, because carbon emissions from burning these fuels were found to be a major contributing factor to climate change. Some climate activists argue that we must realize net-zero carbon emissions by 2030 or face apocalyptic consequences.¹ This almost impossible goal can only be accomplished with the severe curtailment of all fossil fuels, sounding the death knell for the coal industry.

This was a double blow to the citizens of Kemmerer whose two major employers include one of the deepest open-pit coal mines in the United States and the coal-fired Naughton power plant, which has been in operation since 1963. Kemmerer faced a bleak economic future, but hopes of a turnaround came from an unlikely source: nuclear power.

The nuclear power industry in the United States and Europe has seen little growth for decades. Meltdowns at Three Mile Island (1979), Chernobyl (1986) and Fukushima (2011) galvanized resistance to nuclear power expansion and reinforced

"I was to see a grandeur which no words can describe in the Wyoming plains reaching away at sunset to meet the sky. I was to breathe the indescribably stimulating fragrance of sagebrush after an early morning shower. I was to learn that there is no picture to compare with the everchanging beauty painted by the rays of the descending sun aslant a timbered mountain side, shading from somber green to purple, and when the sun has gone down to deep black. I was to learn that there is almost human courage, hope, determination and tragedy in the clump of quaking aspens daring to live at the crest of a high hill, bent and twisted and gnarled by the pounding of a west wind that is never still. I was to learn that the rugged men who tend cattle and sheep on Wyoming's hills and plains, till its fields, build their homes along its streams and in its mountain valleys far from the highways and Pullman car windows, dig coal from its depths, drill oil wells a mile deep, and provide food and fuel for hundreds of thousands, do all this because they had the courage to brave hardships and the vision to see the rewards that courage and industry bring out here in this last frontier of America.

But it would take a long time."

—Robert Rose, *Kemmerer resident (1914–1923)*

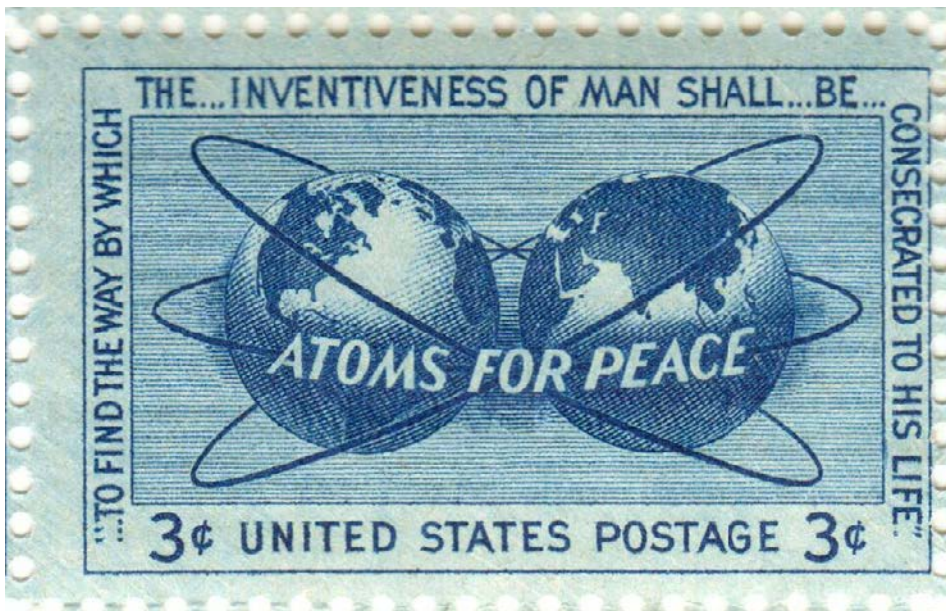
the fears of many that nuclear power was too dangerous and must be curtailed. These fears stymied the economic development of nuclear power. Moreover, movies such as *The China Syndrome* (1979) reinforced fears by implying that capitalist greed and shoddy construction methods would lead to numerous catastrophic nuclear meltdowns if the industry was allowed to continue.

Nuclear historian James Mahaffey has labeled the early Cold War as the "Age of Wild Experimentation." This age pitted the United States against the Soviet Union in a competition to see which nation could set off the largest nuclear explosion. The scores of explosions terrified the world. In the United States, schoolchildren were taught that "duck and cover" was the best defense against a possible nuclear attack.

In late 1953, President Dwight Eisenhower addressed the United Nations in what became known as the "Atoms for Peace" speech. Eisenhower, having no desire

to continue the arms race with the Soviet Union, urged the world to focus instead on the peaceful uses of nuclear power, especially its ability to supply an abundant source of energy. He offered to share the secret of nuclear technology with the rest of the world in an effort to move from the destructiveness of nuclear power to peaceful lifesaving and sustaining purposes. Nuclear power chronicler Marco Visscher contends that, "While the atomic bomb was developed to win World War II, the nuclear plant was used to win the Cold War."

The first nuclear power plant in the United States went online in 1958.² With it came the promise of an almost limitless low-cost source of energy.³ Unfortunately, the fears begat by nuclear power's initial violent wartime use, the possibility that weapons grade materials could be produced at nuclear power plants and the overwrought worries that nuclear plant meltdowns posed an unacceptable threat generated a powerful protest movement



US postage stamp commemorating President Dwight Eisenhower's "Atoms for Peace" speech, which he addressed to the United Nations in 1953.



Power plant seen from US Highway 30, just west of Kemmerer, Wyoming.

terminate nuclear energy production, they were able to force it into a 30-year coma. In 2007, the industry began to stir from its comatose state when the Nuclear Regulatory Commission received several applications for new nuclear power plants.

The need to reduce carbon emissions contrasted sharply with the increased energy demands of developing nations, as well as the massive increase in demand from cryptocurrency mining and artificial intelligence (AI). It soon became clear that the carbon-free energy provided by solar panels and wind turbines was not sufficient to meet the gap in demand. However, carbon-free nuclear power could reliably produce massive amounts of energy and close the gap significantly. As this realization dawned on climate activists, many of them changed their minds about nuclear power and turned from protesting the industry to actively promoting nuclear power as part of the solution to a clean energy environment.

Kemmerer, facing the harsh realities of a carbon-free energy world, recognized an opportunity to turn things around with the embrace of nuclear power generation. City officials aggressively lobbied TerraPower, a company founded by Bill Gates, to build their first Natrium reactor near the Naughton Power Plant site. Former mayor William Thek and city administrator Brian Muir reached out to TerraPower with a clear message, "We want you and we need you" in Kemmerer.

Kemmerer was an ideal location for TerraPower because it already had the



Field crew at the Kemmerer Coal Company Mine in Kemmerer, Wyoming, circa 1975.

whose most radical elements vowed to shut down the entire nuclear power industry.

Mahaffey notes a popular saying among nuclear engineers: "If the first use of

gasoline had been to make napalm, we'd all be driving electric cars now." Nuclear power's checkered past threatened to blow up the entire "Atoms for Peace" movement. While radical protesters failed to

Naughton plant's infrastructure in place to transmit electricity to the grid. The region also provided access to water and to a highly skilled workforce that could be retrained to operate a nuclear power plant.

Although the future looked bright for Kemmerer, many challenges lay ahead. We will discuss those challenges in the final installation of "Why Kemmerer, Wyoming Matters: Part 4." \$

Brian Grinder is a professor at Eastern Washington University and a member of Financial History's editorial board. Dr. Dan Cooper is the president of Active Learning Technologies.

Notes

1. Bill Gates, among others, believes that net-zero carbon emissions for the world's richest nations can be reasonably achieved by 2050.

2. The USSR's first nuclear power plant began operating in 1954.
3. In 1954, the chairman of the US Atomic Energy Commission claimed, "It is not too much to expect that our children will enjoy in their homes electrical energy too cheap to meter."

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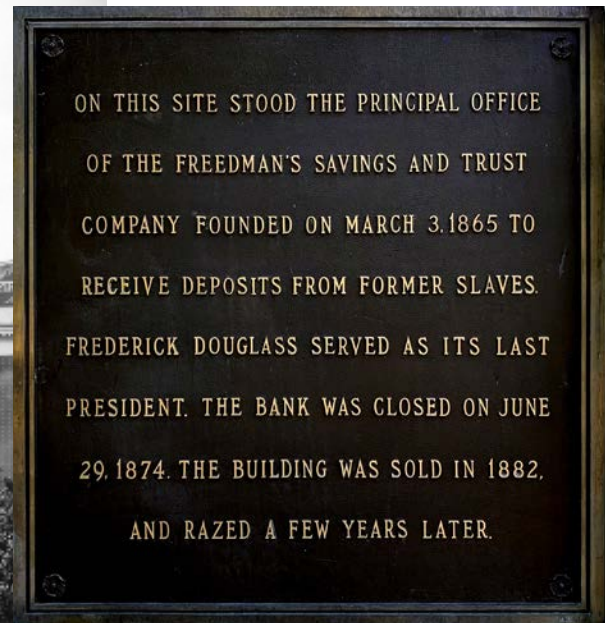
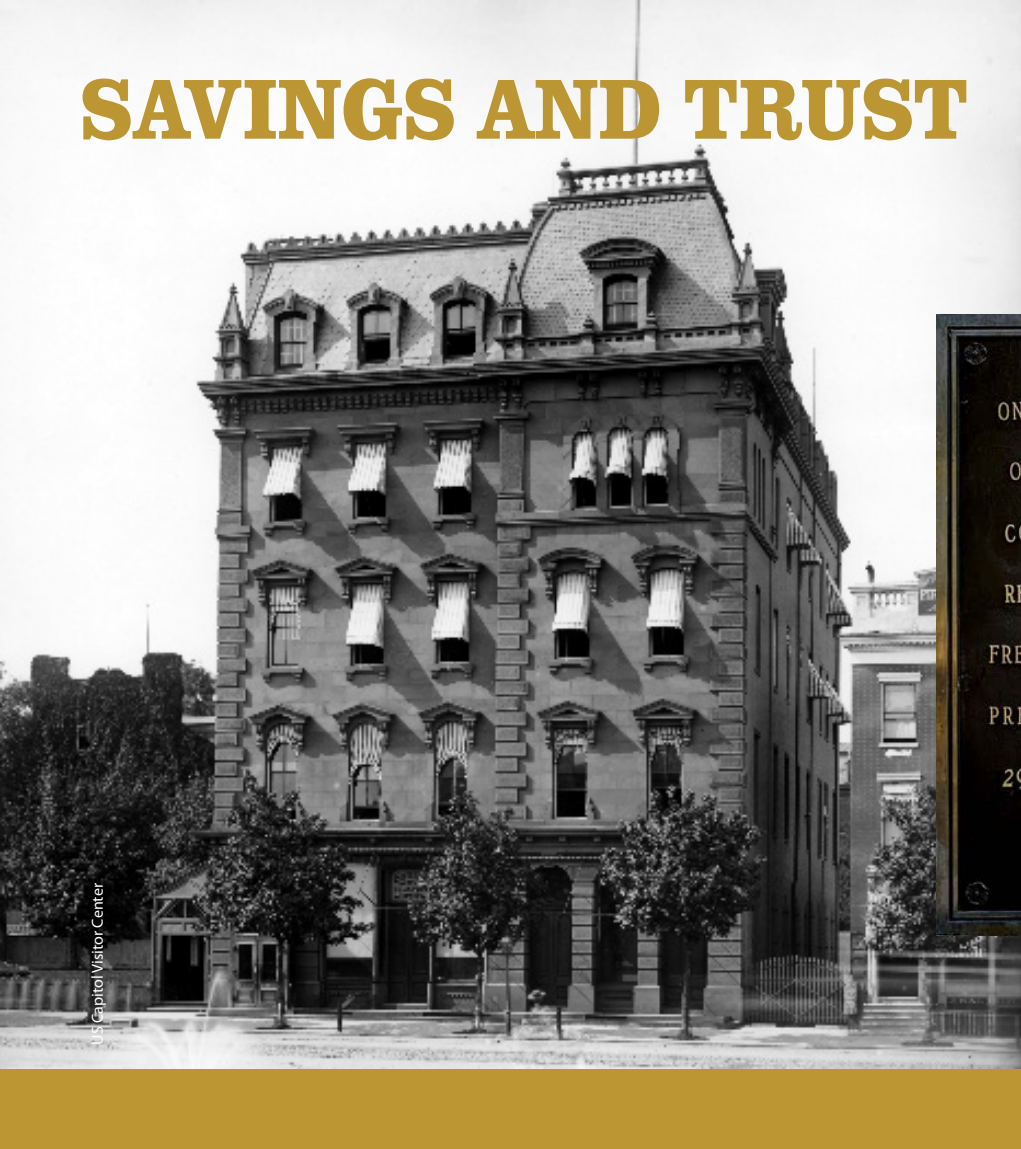


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SAVINGS AND TRUST

The Rise and Betrayal of the Freedman's Bank



By Justene Hill Edwards

ON JULY 20, 1868, Black farmer Enon T. Wright made the almost nine-mile journey from Dog River, Alabama, to Mobile, Alabama. Born enslaved in 1821, in Greene County, Alabama, Wright was likely familiar with the region's waterways, as he spent the first 36 years of his life living and working within the alluvial landscape that characterized Alabama's Gulf Coast. He made the voyage by boat or on foot or maybe a combination of both. He surely traveled past cotton plantations and a factory or two as he made his way

into Mobile. The city was a major port and a hub of industrial and economic enterprise during the period of slavery. His relationship to enslavement, however, differed from the over 430,000 enslaved people who lived in Alabama in 1860, before the outbreak of the Civil War.

Enon Wright was extraordinary by many standards. And maybe the decisions that brought him to this moment, the exceptionality of his life as a formerly enslaved Black man, permeated his thoughts. Using a mixture of skill, ingenuity and a dash of luck, Wright did what most other enslaved people could not have done: he purchased his own freedom. For \$900 (\$31,100 today), he negotiated with his enslaver to buy his way out of slavery in 1857. With his freedom papers in hand, he worked to earn and save as much money as he could, through the danger of being a free man in a slave state, and

through the Civil War, where the potential for universal freedom hung in the balance. After the war, he labored as a farmer in Dog River, surviving the unpredictability of Reconstruction, setting aside money as he went along.

Then, on that day in July 1868, the 47-year-old Wright traveled from his home in Dog River to Mobile. His intended destination was 41 Saint Michael Street, mere blocks away from the Mobile River, which separated Alabama and the Florida panhandle. By entering the building on Saint Michael Street, Wright decided to take a chance on—and to put his trust in—a financial institution that he hoped would support his life as a freed person. He strolled into the Mobile branch of the Freedman's Bank, established in January 1866, to open an account.

Wright spoke with the branch's cashier, a 29-year-old white New Yorker named

Left: The former Freedman's Bank building on Pennsylvania Avenue NW in Washington, DC.
Right: Photograph of the plaque at the site of the Freedman's Bank building in Washington, DC, taken in May 2022.

C. A. Woodward. At this time, Woodward was preparing for publication a short treatise on the history of savings banks, in which he included his thoughts on the “National Savings Bank for Colored People.” In it, Woodward celebrated the Freedman’s Bank and its goal of bringing banking to the recently emancipated. He even lauded depositors such as Wright for their investments in the institution and for embracing the bank’s messages that connected citizenship to the morality of saving and thrift. In fact, he wrote, “It seems almost incredible, when we reflect that this money has been accumulated from the meager earnings of a people but recently emerged from slavery, who were necessarily in a condition of extreme destitution, and who since their liberation have been subject to a continuous system of fraud and pillage by their former masters.” Woodward’s arguments for savings banking exemplified the experiences of African Americans who decided to open Freedman’s Bank accounts. He probably did not fully appreciate the clairvoyance with which he deployed the language of “fraud and pillage.” His insight, though, was prescient. Nevertheless, it was people such as Enon Wright who helped Woodward cultivate a deeper understanding of the bank’s mission and of why the branches were so valuable to African Americans throughout the South.

In his conversation with Woodward about opening an account, Wright provided a variety of information. He gave his race as “Black,” he was “single,” which meant that he was unmarried, and he was a member of a large family that included eight siblings. He did not list the name of his employer or the plantation on which he lived because he worked for himself as a farmer, and he was a free man at the end of the Civil War in 1865. Importantly, Wright came prepared to make a substantial first deposit. By the end of 1868, the average deposit across the 23 branches was \$69. Enon Wright deposited far more than that. His opening deposit was an impressive \$1,000 (\$21,200 today). He had accepted the bank’s charge to “Save the Small Sums” and “Put the Money You Save into the Freedman’s Savings Bank.” He joined the chorus of Black Americans eager to build their wealth through investing in the bank.

Enon Wright was not alone when he ventured into 41 Saint Michael Street. In fact, he was not the only member of his family to do so. His older brother, Ephie, experienced a similar trajectory. By purchasing his freedom in 1847, a decade earlier than his brother, for \$1,000 (\$36,700 today), the 60-year-old Ephie Wright entered the Civil War as a free man as well, and entered the bank branch in Mobile ready to open an account with a starting balance of \$600 (\$12,700 in today’s dollars). Together, Ephie and Enon Wright were two of the five people on July 20, 1868, who decided to take calculated gambles with their savings by opening accounts at the Mobile branch of the Freedman’s Bank.

Together, the Wright brothers embraced the messages that the bank espoused: Black people’s political and economic freedom through saving money and banking. The bank represented the promise of capitalism in the age of emancipation. And while that message encouraged depositors, it also spurred the bank’s demise.

History of the Freedman’s Bank

Established on March 3, 1865, and signed into existence by President Abraham Lincoln in the month before his assassination, the Freedman’s Bank grew steadily in its first five years, with depositors from New York to New Orleans opening accounts and depositing their hard-earned savings into the bank’s coffers. Between 1865 and 1870, African Americans deposited a total of \$12.6 million (\$303 million today) into accounts at branches in states as far north as New York, as far south as Florida and as far west as Texas. By 1870, depositors had earned over \$1.6 million (\$38.5 million today) from the bank in interest payments on their deposits.

Black depositors received clear messages from administrators about the advantages of saving money. These trustees and branch cashiers were Republicans who not only actively supported the Union’s war efforts but also supported a free labor ideology that infiltrated the bank’s advertisements within Black communities with bank branches. “Save the Small Sums—Cut Off Your Vices—Don’t Smoke—Don’t Drink—Don’t Buy Lottery Tickets—Put the Money You Save into the

Freedman’s Savings Bank,” were splashed in Black newspapers and disseminated in Black communities across the nation, primarily in the former Confederate South. Designed to persuade depositors that morality and saving went hand in hand, the bank’s predominantly white administrators worked to convince Black people to patronize local branches and deposit as much money as possible into bank accounts. The messages—and the propaganda—communicated to freed people that banking would help them climb the ladder to full freedom.

By 1874, depositors had collectively placed over \$57 million (\$1.51 billion today) into over 100,000 bank accounts in 34 branches. By anyone’s estimation, freed people made the Freedman’s Bank one of the most successful financial institutions of the 19th century. For a short time, African Americans used the bank to build a stable economic foundation for themselves and their families after the 13th Amendment abolished legal slavery in 1865. During this time, the Freedman’s Bank epitomized the economic power of African Americans unleashed from the bonds of enslavement.

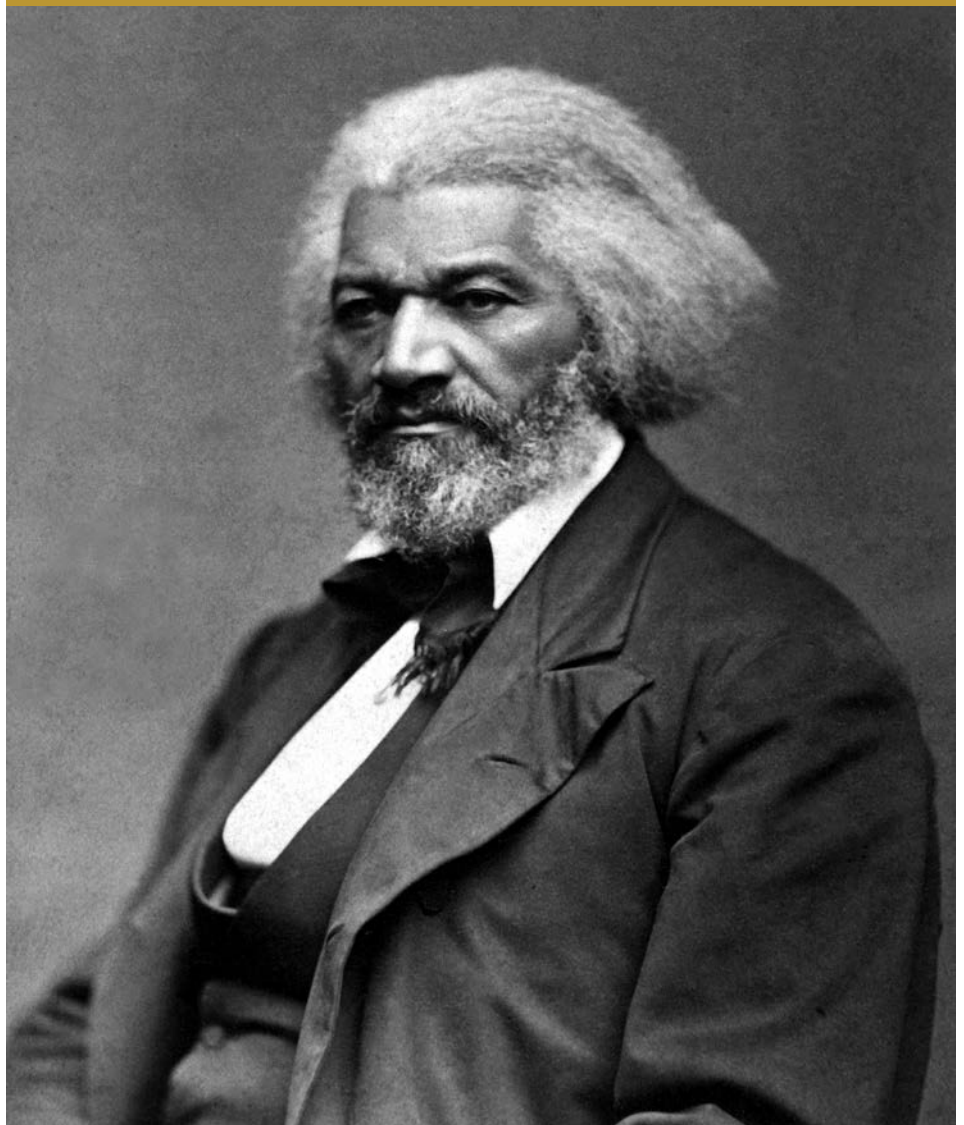
In their public-facing messaging, the founders and trustees of the Freedman’s Bank wanted to democratize finance, to make banking accessible to working-class and poor people. Bank officials believed that they needed to teach freed people about banking and finance to help them understand the responsibility and burden of freedom. This message formed the core of the bank’s mission. The trustees and administrators circulated public messages to freed people about the federal government not helping them economically in their climb out of slavery. They urged Black people not to rely economically on the federal government and instead to cultivate a sense of self-sufficiency. By working for the bank and guiding its mission, administrators were agreeing to help freed people navigate the economic minefield that defined Reconstruction.

Bank administrators, however, did not fulfill the terms of their promise to depositors. Instead of offering simple banking services to freed people, the trustees decided to take a gamble. First, it was an illegal loan to a trustee in April 1867. Then, in May 1870, the bank’s predominantly

white trustees, led by famed (and infamous) banker Henry D. Cooke, lobbied Congress, which allowed them to alter the bank's fundamental mission.

By mid-1870, the bank ceased operating as a savings bank or, as the bank's name suggested, a savings and trust company. The trustees, with congressional approval, began to operate the Freedman's Bank as a commercial bank. Instead of merely accepting freed people's deposits, the trustees began making loans, using the millions of dollars of Black Americans' money to invest in speculative ventures. Most of the loans went to white businessmen, members of Congress and investors in and around the bank's central office in Washington, DC. Some of the trustees even stole depositors' money to fund their own business ventures. Initially, when the bank operated as a savings bank, the trustees' and administrators' intentions may have benefited the depositors. But as African Americans' money flowed into their accounts, the bank administrators' intentions changed. Corruption seeped in. This corruption jeopardized the bank's fundamental mission, to serve African Americans.

The bank could sustain only so much instability. So when a financial panic in the fall of 1873 toppled some of the nation's most prominent financial institutions, this event proved to be too much risk for the Freedman's Bank to withstand. The trustees, therefore, made one final decision to salvage the bank's reputation among Black depositors. In March 1874, the trustees convinced Frederick Douglass to help steer the bank toward prosperity. But not even Douglass could rescue the institution, or the depositors' money. After nine years of operation, the bank's exponential growth came to an abrupt stop. On July 2, 1874, the bank officially closed its doors. The remaining depositors, all 61,144 of them, lost access to a collective \$2,939,925.22 (\$77.9 million today). Though depositors recovered \$1,731,845.01 (\$45.9 million today), 59% of the total deposits at the bank's closing, by 1909 depositors still had \$1,208,071 (\$40.1 million today) outstanding that they had not received. The damage was done. Freed people received clear messages about their value in the financial services marketplace. Though slavery was no longer legal, white



National Archives and Records Administration

Portrait of abolitionist and social reformer Frederick Douglass, circa 1879. Douglass was the last president of the Freedman's Bank before its permanent closure in 1874.

capitalists could exploit them and their hard work, and they would have little recourse.

Aftermath of the Collapse

In the late 19th and early 20th centuries, African Americans, still shaken by the bank's failure, began to construct their own economic and business infrastructure. Because of the banking industry's practice of exclusion, African Americans were forced to create their own sources of capital and credit. If the financial services industry and the federal government were going to exploit and ignore them, then they would construct their own avenues to achieve economic stability. African Americans, though, did not forget the harm that

the Freedman's Bank failure wrought on freed people. Black organizations of the early 20th century, such as the National Negro Bankers Association, encouraged Congress to give serious consideration to a more robust program of depositor compensation. Advocates such as W.E.B. DuBois argued that the federal government had failed to protect African Americans during Reconstruction. He asserted that such negligence, by bank administrators and federal authorities, would bankrupt African Americans for generations to come. He did not have confidence in the political will of white politicians to advocate for Black Americans. When asked in 1927 about the possibility of further compensation for depositors for the bank's failure, DuBois wrote a sobering



Portrait of Henry D. Cooke, circa 1860–1865. In May 1870, the Freedman's Bank's predominantly white trustees, led by Cooke, successfully lobbied Congress to alter the bank's fundamental mission.

assessment. He concluded, "I assure you that there isn't the slightest chance in the world of your receiving any further funds from this deposit."

White Americans used the bank's failure to fuel stereotypes about Black people's laziness and their lack of fitness for the responsibility of political and economic inclusion. White Democrats and Republicans alike dared to argue that Black people were ill-prepared for the privileges of freedom. This was why, they contended, the bank failed. As one of the bank's commissioners told a depositor after the bank's collapse, it was Black people's fault for entrusting bankers with their money. These types of criticisms continued to infiltrate public discussions of African Americans, especially in the

postwar South. Even Frederick Douglass sought to rebut the claim of Black financial ignorance and misguidedness. "The failure of that institution," he clarified, "was not due to the ignorance and incompetency of colored men, but to the shrewdness and rascality of white men." Despite the bank's temporary success, white Americans blamed African Americans for the bank's tragic demise.

In the longer term, African Americans were pushed out of the financial marketplace. In the late 19th and early 20th centuries, without large banks to serve their needs, African Americans created financial institutions of their own. Left behind by traditional banks, Black communities around the nation, from Richmond, Virginia, to Durham, North Carolina, and

Tulsa, Oklahoma, invested in their own communities through establishing a variety of types of institutions to suit their specific economic needs. They created joint stock companies, their own banks and Black economic enclaves. The Capital Savings Bank in Washington, DC, incorporated in October 1888, and the True Reformers Bank founded in Richmond, Virginia, which began operations in April 1889, serve as examples. Despite the continued threat of racial and economic violence, African Americans were compelled to create avenues through which to combat the ever-increasing reality of economic exclusion.

The history of the Freedman's Bank shows that America's racial wealth gap started with slavery and continued during Reconstruction, the era that was supposed to inaugurate freedom for African Americans. America's banks have historically both ignored and exploited Black communities. Only when financial institutions, supported by the federal government, believed that they could profit from African Americans' desire to build wealth did they extend financial services to them. But if redlining, predatory inclusion and the subprime mortgage crisis of the early 2000s have proved anything, it's that America's banking industry has preyed on populations of people least likely to have the economic or political power to fight back.

The Freedman's Bank was created to symbolize the highest ideals of American capitalism and the democratic promise of freedom during the second founding. For freed people, however, the bank came to represent a new form of exploitation. The connections among the bank's rise, collapse and continued influence on Black communities have been buried. 💰

*Justene Hill Edwards is an associate professor of history at the University of Virginia. She is the author of *Unfree Markets: The Slaves' Economy and the Rise of Capitalism in South Carolina*. This article has been excerpted from *Savings and Trust: The Rise and Betrayal of the Freedman's Bank*. Copyright © 2024 by Justene Hill Edwards. Used with permission of the publisher, W. W. Norton & Company, Inc. All rights reserved.*



Alex Wong

LEADING BY EXAMPLE

Iconoclast and institution founder, entrepreneur and financier, William H. Donaldson led a life of integrity and achievement

By Gregory DL Morris

PERHAPS BEST KNOWN as one of the founders of the legendary firm Donaldson, Lufkin & Jenrette (DLJ), William H. Donaldson left a vast legacy in business and higher education. A proud native son of Buffalo, New York, he graduated from Yale and served as an officer in the Marine Corps before earning an MBA from Harvard and blazing a seminal career in finance and government.

President George W. Bush swears in William H. Donaldson as the new chairman of the Securities and Exchange Commission (SEC) while White House Counsel Alberto R. Gonzales (L) and Donaldson's wife Jane (R) look on during the ceremony at the White House, February 18, 2003.

Throughout his long career, business ethics was a great concern to Donaldson. That came through clearly in his memoir—*Entrepreneurial Leader: A Lifetime of Adventures in Business, Education, and Government*, with Karl Weber (Greenleaf Book Group Press, 2018)—and was echoed strongly by his wife Jane.

"Ethics was a theme that would come up again and again in his conversation," she told *Financial History*. "Business was getting away from the fundamentals that were the basis of DLJ. Leadership of companies were not in tune with the basics of the business. That extended to the media. I remember him saying to me that the financial press would send people to him that knew nothing about business. He said, 'I got sick and tired of having to educate reporters about what questions to ask me.'"

When Steve Shepard founded the Graduate School of Journalism at the City University of New York (CUNY), "Bill was particularly excited about that," Jane said. "It was the whole notion of young journalists being trained to understand business.

"The Bill Donaldson that people knew was authentic," Jane continued. "He was charming and fair, but tough. His persona was low-key, but he was not afraid to play hardball if that had to be done."

Donaldson is renowned and respected for the way he led organizations, but should be equally lauded for his instrumental role in creating organizations, from DLJ to the Yale School of Business, suggested David J. Cowen, president and CEO of the Museum of American Finance. "He was an incredible trailblazer. For instance, it was groundbreaking and a huge deal

when DLJ was the first private investment bank to go public via an IPO. Over time most firms followed and it paved the way to what Wall Street is today.”

The two first met when Cowen was hired to lead the Museum in 2009; Donaldson was the co-chair of the Museum’s advisory council. He immediately put Cowen at ease by saying, “Don’t just tell me the good things, tell me your challenges. That’s why I’m here.”

That professional collaboration grew into a friendship, and Cowen would visit Donaldson many times over the years either in New York City or at their family home north of the city. “Bill was always grounded,” Cowen stressed. “He would tell the truth and never waiver from that.”

At Donaldson’s memorial service, Cowen noted that “there are five worlds—for profit, non-profit, academia, government and military—and Bill is one of the very few people I have met who held a leadership role and made an impact in all five. His non-profit and government service is particularly impressive, including the Aspen Institute, the Carnegie Endowment for Peace, the Ford Foundation, the Financial Services Volunteer Corps, FDIC Advisory Commission, the Grace Commission, Lincoln Center, the Obama Economic Recovery Advisory Board, the Volcker Alliance and the Museum of American Finance.”

Donaldson was “a Wall Streeter with a conscience,” said Cowen. “He was good at making money, and also believed in giving

back wherever and whenever he could. He was quick on his feet, and very successful, and he always did it ethically.”

Consuelo Mack, executive producer and managing editor of *Consuelo Mack WealthTrack*, emphasized Donaldson’s independence of thought. “He was not an ideologue. He was a Rockefeller Republican, a moderate who reached across the aisle.” He worked in various capacities in both Republican and Democratic administrations, she noted.

“Bill was already established when I was just getting started,” she said, “so of course I knew of him. He was just a giant in the industry. It was not until later in his life that I got to know him.”

Mack started as a retail broker out of college in 1974 at the time when “DLJ was the ultimate firm, the gold standard where young investment bankers and analysts wanted to work,” she recalled. “It was known for its integrity and excellence in both research and execution and as an entrepreneurial shop where ideas mattered.”

She also got to know Donaldson’s co-founder at the firm, Dick Jenrette, much later through his philanthropic efforts to restore old historic houses. “He was an old-school gentleman,” said Mack. “A real class act.”

It was through the Museum that Mack got to know Donaldson personally, she said. “He was always low key, very



William H. Donaldson was born and raised in Buffalo, New York. He earned a BA in American Studies in 1953 from Yale University, where he was business manager of the *Yale Daily News* and played freshman ice hockey. After graduation, he joined the US Marine Corps and became a first lieutenant in the Far Eastern Theater (Japan-Korea).

Donaldson earned an MBA with distinction from the Harvard Business School in 1958, and the next year he and two friends from grad school, Dan Lufkin and Dick Jenrette, co-founded the investment banking firm of Donaldson, Lufkin & Jenrette. DLJ became the first NYSE firm to sell its shares to the public, a move that reflected their willingness to disrupt the status quo.

In 1973, Donaldson accepted an offer from Secretary of State Henry Kissinger to become Under Secretary of State for International Security Affairs. After Nixon resigned in 1974, Donaldson served as counsel to Vice President Nelson Rockefeller.

The following year, Donaldson was asked by then president of Yale, Kingman Brewster, to found a unique graduate management school that would bridge the gap between the public and private sectors. He became the founding dean of the Yale School of Management, a role he cherished. Donaldson then returned to Wall Street in 1980 to start an international investment fund, Donaldson Enterprises.

In 1990, he was asked to serve as chairman and CEO of the New York Stock Exchange. He appreciated the irony of leading the institution that had originally rejected his plan to make DLJ the first listed firm to go public.

Five years later, after completing his term at the NYSE, Donaldson, a director of the troubled insurance company Aetna, agreed to become CEO. Within two years, he had turned the firm around.

In 2003, President George W. Bush appointed Donaldson, then age 72, as chairman of the Securities and Exchange Commission (SEC). Donaldson’s leadership became a time for the agency to restore its integrity and purpose. Broadly, Donaldson served as a director of 14 publicly held corporations, as well as several privately held businesses. He served on the boards of numerous philanthropic, arts and educational institutions.

Donaldson died at age 93 at home in Waccabuc, New York, on June 12, 2024. He is survived by his wife, Jane Phillips Donaldson and his three children.



Patrick McMullan

William and Jane Donaldson at Lincoln Center’s 2016 Fall Gala.



Museum of American Finance

Left to right: William Donaldson, John Whitehead and MoAF President David Cowen at the 2010 MoAF Gala, where Donaldson was honored with the Whitehead Award for Distinguished Public Service and Financial Leadership.

understated, always focused on other people, which is a highly unusual quality in an industry that is filled with egomaniacs. Bill was open and inclusive. In all of my many conversations with people in the industry, I have never met anyone who did not think Bill was a great leader.”

In particular, Mack stressed Donaldson’s preference for building consensus. That was not just in situations when he needed to be persuasive, but as a normal course of management. “He went to great lengths to listen and then made decisions. He led in a quiet but effective way. Never showy.”

That said, she noted that he was comfortable issuing orders and expected them to be followed. He performed at a high level and expected others to match his effort. “He preferred to lead by example. No doubt he was ambitious, even impatient to get things done at times. But you would never know it from the outside.”

Jane Donaldson mentioned a pivotal moment early in the DLJ days when the firm discovered a considerable risk in a

company it had recommended to clients. As was related in detail in his memoir, DLJ quickly made full disclosure to clients and offered to get them out of those positions if they chose. Donaldson, who had just returned from Europe, turned around and jumped on a flight back to Scotland to talk to several large clients in person.

While he stressed in his book that it was the forthright disclosure of their initial oversight that earned the young firm a strong reputation, Jane suggested that—in retrospect, that was years before they met—the personal connection was just as important to their success.

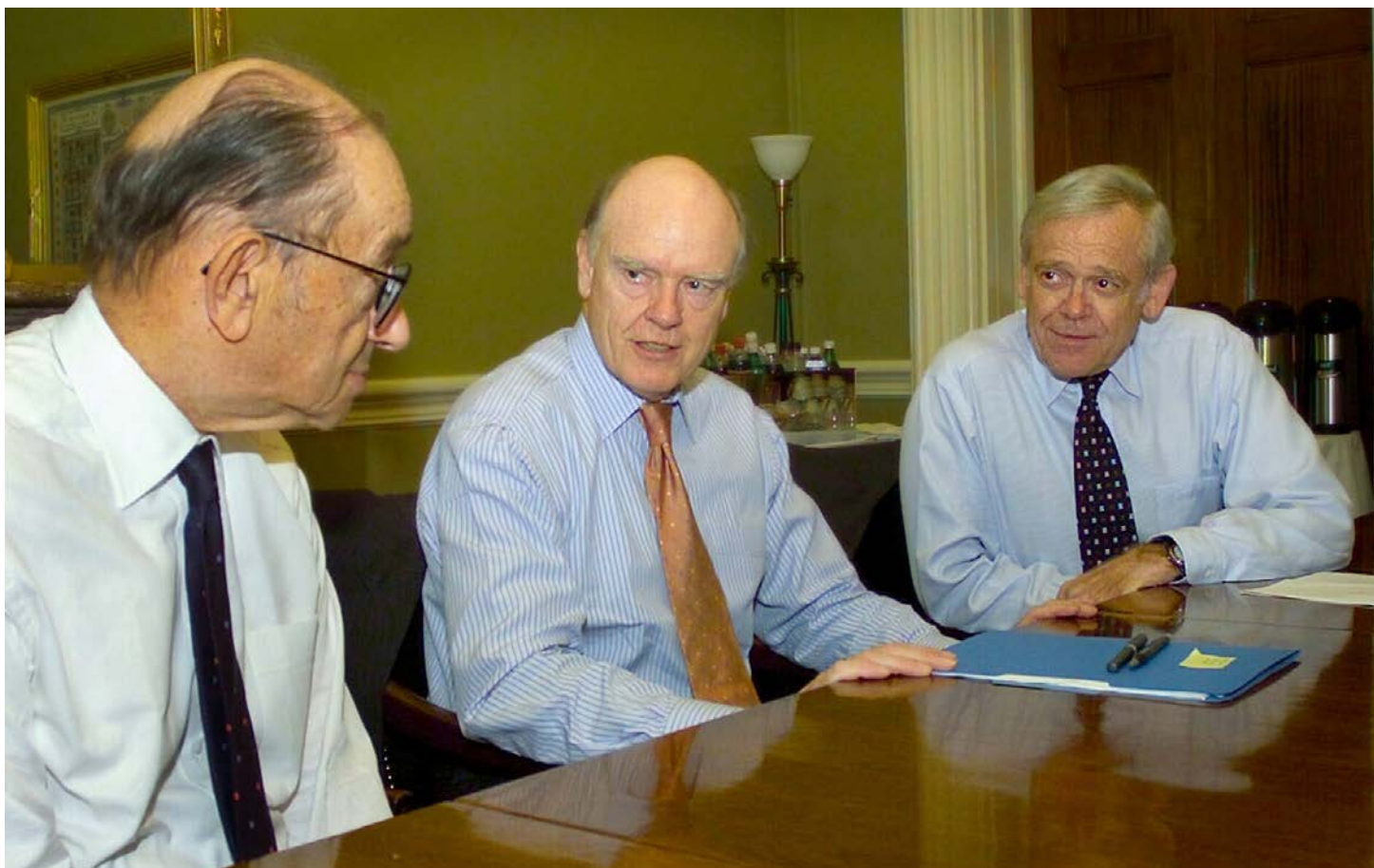
Donaldson was a seasoned traveler, including a great deal of international journeys during his DLJ years and his time at the State Department, and then recreationally once he had the time for that.

“Bill divided his travel distinctly between business and personal,” Jane related. “His early professional life was primarily business travel. During his early DLJ days he was particularly attuned to visiting customers. It was always very important for

him to get on a plane and talk to people face to face. During his later return to DLJ, he traveled extensively helping to develop business in Asia.”

“When we started traveling more for pleasure, the discussion of destinations often had a distinct pattern,” Jane said with a laugh. “I would say something like, ‘I’d like to go to Madrid.’ And Bill would say, ‘Well, I’ve been to Madrid...’ at which point I would remind him, ‘that was for a board meeting, so you really haven’t seen Madrid.’ He became a much more interested, enthusiastic and participatory traveler once it was not business travel.”

Donaldson was an avid reader, said Jane. “He was intrigued by biographies of major historical figures like Thomas Jefferson, or books like *The Brethren* [by Bob Woodward], but he was also an occasional fiction reader. He was always up for an action thriller. He liked *The Hunt for Red October*, but mostly non-fiction. Bill and [historian] David McCullough were at Yale together, and I think Bill read everything David wrote. There was always



Federal Reserve Chairman Alan Greenspan, Treasury Secretary John Snow and SEC Chairman William Donaldson during a meeting of the President's Working Group on Financial Markets at the Treasury Department, November 14, 2003.

a book by the bedside. Always a hard cover, never an e-reader.”

Donaldson exercised his body as well as his mind. “He played hockey and tennis most of his life, and later in life took up golf,” said Jane. “I was in my 50s and he was in his 60s when we got each other clubs. We were never great, but we wanted to be good enough to play anywhere in the world and not embarrass ourselves.”

Jane recalled going to St. Andrew’s for the British Open one year and experiencing the original form of the sport on links land. “The way they cut the grass around the greens is very different there,” she said, “So no one chips. They putt from 30 yards away.”

When not traveling, home was in Westchester County; they also had an apartment in New York. “We were in the city Monday through Friday and in Waccabuc most weekends,” said Jane. “We switched that during the pandemic. Now I live in Waccabuc most of the time and am in the city a night or two each week. I’m glad we kept the apartment.”

As a parent, “Bill was a generation early for work-life balance issues,” Jane said,

“but he was a very good father to each of his kids in different ways. Early on he was away a lot, but when he was home, he was always attentive. When our son Adam was born, Bill was in a different place in his life and was able to spend a lot of time with him. His older kids understood that, so we are a very strong blended family. We all have each other’s backs.”

True to his roots, Donaldson “always counted himself as a passionate Buffalonian,” said Jane. “He remained connected to the town all of his life. We would visit there often. He was very close to his high school friends, some of whom still lived in Buffalo. We would spend weekends with them, and also go up for Nichols School reunions.”

It was friends and community that were the connection. By the time he died, Donaldson’s only living relative in Buffalo was his cousin Georgia, age 95.

“He really had a life-long connection with the people and also the culture,” said Jane. “He never thought of Buffalo as a gritty industrial city. He would speak of it as a comfortable community in which to grow up. A

place that was foundational to his character in many ways.” Indeed, one of Buffalo’s nicknames is The City of Good Neighbors.

Donaldson attended public school until 7th grade, and then went to the prestigious private Nichols School on a scholarship. “Bill later donated the funds to restore the middle school in honor of his parents. He was always a supporter of public education, while at the same time felt very strongly that his chance to go to Nichols was a great experience.”

From Buffalo to Wall Street, Donaldson made an impact through his leadership, actions and generosity. His memorial service at Alice Tully Hall drew a crowd of 500 people. As Cowen noted, it demonstrated how many people respected him and that “so many others, just like me, will miss Bill. He was quite a guy.” \$

Gregory DL Morris is an independent business journalist, principal of Enterprise & Industry Historic Research and an active member of the Museum’s editorial board.

SHORT-TERM GAINS AND LONG-TERM PAIN

THE HISTORY OF US ENTITLEMENTS

By Mark J. Higgins

“It is not improper to observe, that pensions in all countries begin on a small scale, and are first generally granted on proper consideration, and then they increase till at last they are granted often on whim or caprice as for proper considerations... It will drain any treasury, no matter how full.”

—Nathaniel Macon, former Speaker of the House (January 1818)

ON JANUARY 1, 2025, the gross federal debt of the United States exceeded 120% of GDP, surpassing the previous all-time-high of approximately 119% set at the end of World War II. Recent projections by the bipartisan Congressional Budget Office (CBO) are even more alarming. As of March 2025, the CBO estimated that current spending and tax policies will cause the gross federal debt to rise steadily to 169% of GDP by 2055. These estimates do not account for unforeseen crises, which make it conceivable that future debt levels will rise considerably higher.

The greatest financial challenge for the United States in the 21st century will almost certainly involve reining in the nation’s unsustainable spending and debt accumulation. Solving this problem is difficult under any circumstances, but what makes it especially daunting is the fact that few politicians acknowledge that the primary cause is unsustainable spending on entitlements. In 2024, mandatory spending on programs, such as Social Security, Medicare, Medicaid, unemployment and other aid programs constituted roughly 55% of non-interest, federal spending. In 2055, these programs are projected to absorb approximately 67% of non-interest

spending. The sheer magnitude of entitlement program costs makes it impossible to solve the nation’s debt problem unless government policymakers commit to altering them in a meaningful way.

The Danger of Depleted Borrowing Capacity

“Exigencies are to be expected to occur, in the affairs of nations, in which there will be a necessity for borrowing. That loans in times of public danger, especially from foreign war, are found an indispensable resource, even to the wealthiest of them... On the one hand, the necessity for borrowing in particular emergencies cannot be doubted, so on the other, it is equally evident, that to be able to borrow upon good terms, it is essential that the credit of a nation should be well established.”

—Alexander Hamilton, first US Secretary of the Treasury

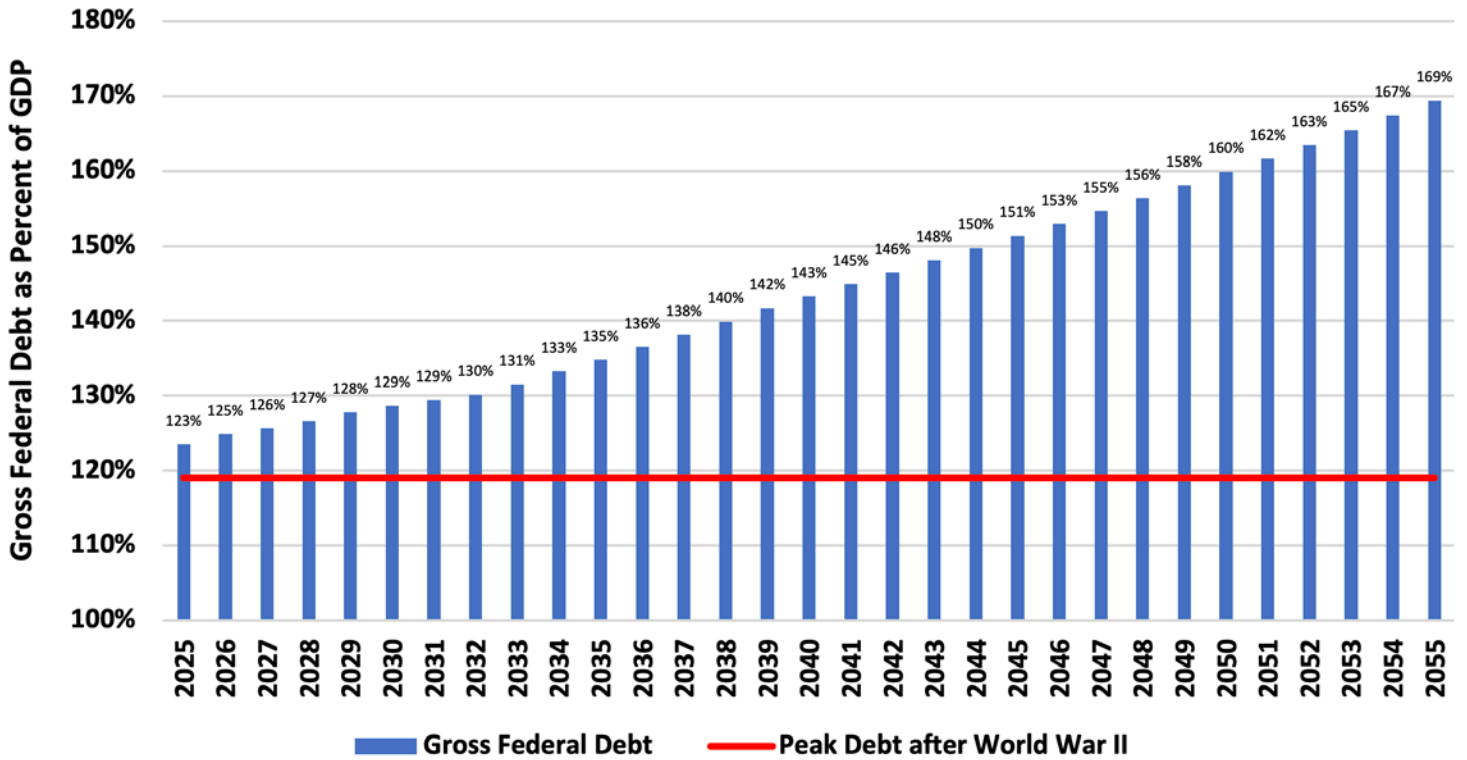
The last time the credit of the United States was called into serious question was in 1790. At the time, many states had defaulted on bonds issued to fund the Revolutionary War. In extreme cases, some states even failed to fully compensate veterans for their service in the war. But the United States was fortunate that President George Washington appointed Alexander Hamilton to serve as the nation’s first Secretary of the Treasury. In addition to creating the nation’s first central bank, Hamilton consolidated the war debt of the states under the federal government and selectively raised tariffs to ensure adequate coverage of interest and principal payments. He also articulated two fundamental principles regarding the

use of public debt in his *First Report on the Public Credit*. The first was that it should be used primarily to address *public dangers*, especially foreign wars. The second was that the debt should be extinguished when the danger subsided. In combination, Hamilton’s programs and principles repaired the nation’s credit and established a solid foundation for future economic growth.

The United States largely abided by Hamiltonian principles for approximately 150 years, thus ensuring adequate borrowing capacity to finance successful responses to public dangers, such as the War of 1812, the Civil War, World War I, the Great Depression and World War II. But emboldened by extraordinary post-World War II wealth and armed with the world’s new dominant reserve currency under the Bretton Woods Agreement, Congress massively increased entitlement spending for the last 80 years. Now, in 2025, the debt reckoning of the United States has arrived, and Americans must choose whether to continue spending beyond their means.

This article focuses on a critically important issue related to the health of the nation’s finances. It explains the history of US entitlement programs and how they have evolved and expanded over more than two centuries. The purpose is not to advocate for specific solutions, but rather to take the first step and explain the severity of the problem. Solutions will inevitably require painful sacrifices that will likely entail a distasteful combination of benefit reductions and tax increases. Many who are called to make such sacrifices will feel they are unfair—and, in many cases, they will be unfair. Perhaps understanding how the nation arrived at this point will help people appreciate why such sacrifices are necessary, nonetheless. The alternative is to saddle future generations with the debts of their ancestors, thereby condemning them to confront public dangers armed only with a maxed-out line of credit.

Estimated Gross Federal Debt of the United States of America (2025 to 2055)



Source: Congressional Budget Office (March 2025)

Veterans' Pensions and the Entitlement Expansion Cycle

The first US federal entitlement programs consisted of pension plans for war veterans. Unlike modern pensions, veterans' plans only provided benefits to disabled veterans. The first plan was created in 1789 when the newly formed federal government took over a plan established for Army veterans prior to the ratification of the US Constitution.

Over the next 80 years, the Revolutionary War pension plan followed a pattern of incremental expansion that would repeat with future veterans' plans. Initially, such plans covered a specific set of conditions for a well-defined cohort of eligible participants. For example, the Revolutionary War plan restricted coverage to veterans who suffered disabilities stemming from wounds or illnesses acquired in the line of duty, as well as widows of eligible veterans. But over time, Congress steadily expanded benefits and loosened eligibility criteria. Expansions typically occurred around critical election years, especially when they coincided with a strong economy. In the case of the Revolutionary War pension, major benefit and

eligibility expansions occurred in 1806, 1818, 1832 and 1836. In combination, incremental expansions over multiple decades massively increased plan costs, placing unanticipated strain on federal budgets.

One key difference between veterans' plans and modern entitlement programs, however, is that distributions inevitably declined as veterans passed away. In the case of the Revolutionary War plan, distributions ended when the last pensioner, Daniel T. Bakeman, passed away on April 5, 1869. Similar to veterans' pensions established during the War of 1812, the Civil War and World War I, the aggregate costs of the Revolutionary War veterans' pension far exceeded initial estimates. Even so, the costs would soon be dwarfed in the 20th century by entitlement programs that covered a much larger portion of the US population.

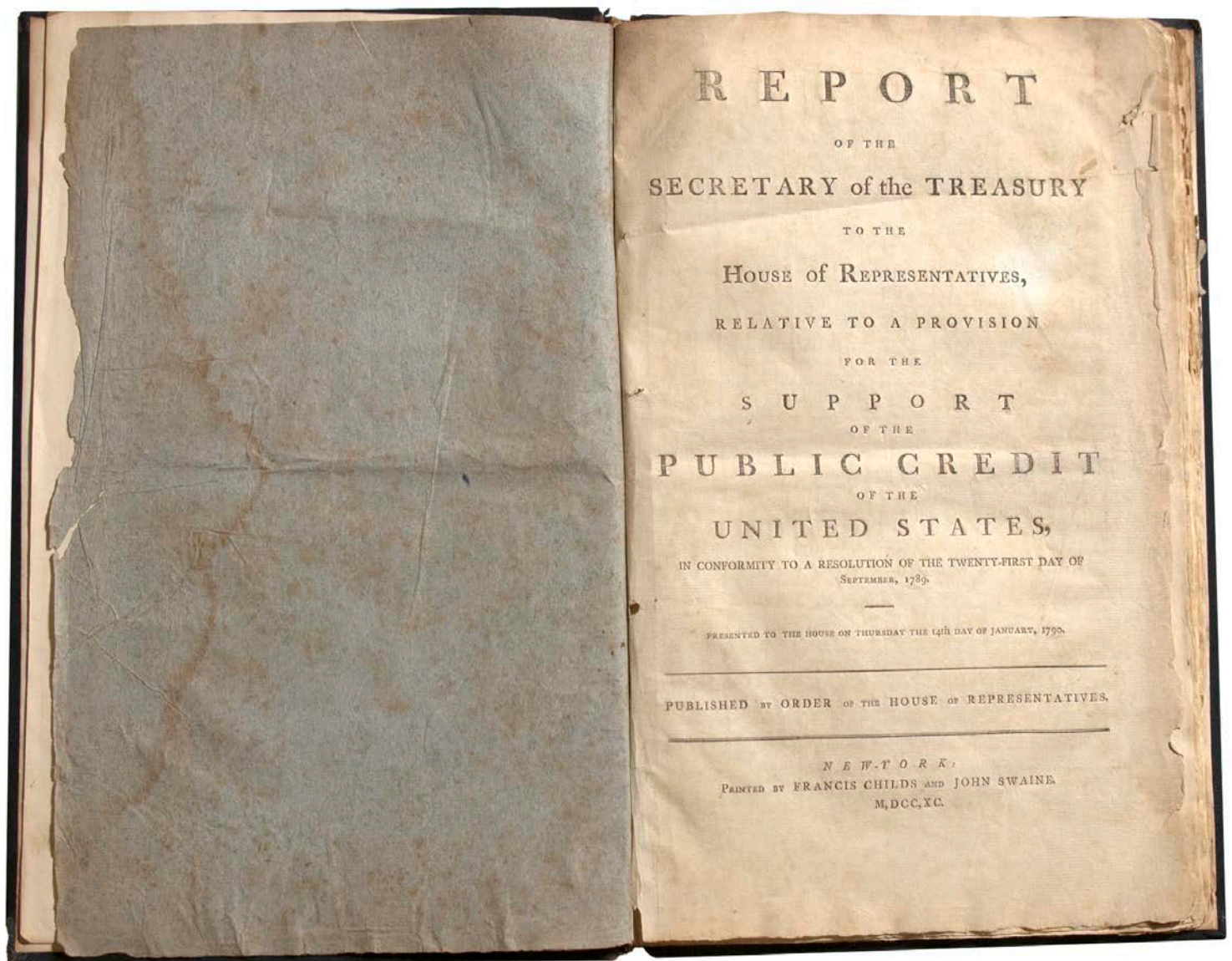
A New Deal for Entitlements

"Security was attained in the earlier days through the interdependence of members of families upon each other and of the families within a small

community upon each other. The complexities of great communities and of organized industry makes less real these simple means of security. Therefore, we are compelled to employ the active interest of the nation as a whole through government in order to encourage greater security for each individual who composes it."

— President Franklin D. Roosevelt

The Great Depression was the worst economic catastrophe in US history. Real GDP contracted by nearly 30% from 1929 to 1933, and unemployment averaged approximately 18% for the entire decade. The misery of the 1930s was amplified by the transformation of the United States from an agrarian to industrial economy over the prior century. All else being equal, family and community bonds were weakened, leaving many vulnerable populations without a support network. Prior to the Depression, poverty and unemployment were largely handled by family members, private charities and local government. Looser family and community



The first page of Alexander Hamilton's *Report on the Public Credit*, which is considered to be the financial equivalent of the US Constitution.

bonds rendered traditional lines of defense less effective, and public support for a federal solution intensified as the Depression persisted. The elderly and unemployed were deemed especially vulnerable.

On August 14, 1935, President Franklin D. Roosevelt signed the Social Security Act of 1935. The Act included old age insurance, unemployment insurance and various funding programs to assist state-level programs to aid vulnerable populations. The Social Security Act also introduced a payroll tax to fund benefits. Proponents of the Act considered the payroll tax especially important, as it provided the perception that Social Security was an *earned right*, rather than a handout. The earned right claim was further reinforced with the passage of the

Social Security Amendments of 1939, which established the Social Security Trust Fund.

The reality, which few Americans appreciate to this day, is that there is a weak link between one's contributions into the Social Security program and the level of one's benefits. For example, the first generation of recipients, on average, received benefits that far exceeded their contributions, whereas future generations will likely contribute far more than they receive. During a conversation with a Treasury official, President Roosevelt conceded this fact, stating, "I guess you're right on the economics. They are politics all the way through. We put those payroll contributions there so as to give the contributors a legal, moral and political

right to collect their pensions and their unemployment benefits. With those taxes in there, no damn politician can ever scrap my Social Security program."

The Social Security Act marked a monumental shift in federal entitlement policy. Prior to its passage, entitlement programs consisted almost entirely of pensions for veterans and selected groups of government employees. In contrast, Social Security offered benefits to a much broader constituency and was perceived as an earned right due to the existence of the payroll tax and Social Security Trust Fund. These precedents created a legal and philosophical foundation upon which new entitlement programs were launched in the decades following World War II.

Inflated Expectations

“This administration today, here and now, declares unconditional war on poverty in America... It will not be a short or easy struggle, no single weapon or strategy will suffice, but we shall not rest until that war is won. The richest Nation on earth can afford to win it.”

—President Lyndon B. Johnson,
State of the Union (January 8, 1964)

Economic conditions during the 15 years following the end of World War II were diametrically opposed to conditions during the 15 years preceding it. Major cities across Europe and Asia lay in ruins, while the United States was significantly strengthened. In 1945, the United States possessed approximately 70% of the world's gold, a vastly expanded industrial infrastructure, a massive technological edge relative to global competitors and the privilege of issuing the world's new

dominant reserve currency. Emboldened by what seemed like bottomless financial reserves, the existence of poverty became less tolerable in the United States. This increased pressure on elected officials to expand Social Security benefits both in terms of coverage and level of distributions throughout the 1950s. Then, in the mid-1960s, another fundamental shift in entitlement spending occurred.

On January 20, 1965, President Lyndon B. Johnson was inaugurated for his first elected term. Channeling the public's growing distaste for poverty, President Johnson declared an ambitious goal of eliminating poverty entirely in the United States. Dubbed the Great Society, Johnson worked with Congress to create a slew of new entitlement programs. The Social Security Amendments of 1965, which created the Medicare and Medicaid programs, constituted his signature legislation. Johnson also signed laws approving large benefit increases for Social Security, as well as substantial expansion of the disability program. Combined with

numerous anti-poverty initiatives enacted under the Economic Opportunity Act of 1964, President Johnson massively increased the level and scope of federal spending on entitlements.

President Johnson's programs were well-intended but proved costly, both politically and financially. On March 31, 1968, President Johnson announced that he would not seek reelection. His presidency suffered from a disastrous escalation of the war in Vietnam, the onset of elevated inflation levels and dreadful results of the Great Society. Richard Nixon defeated Vice President Hubert Humphrey in the 1968 presidential election and entered office with the intent of reining in wasteful spending. Surprisingly, however, the net impact of President Nixon's reforms was further expansion of entitlements. For example, Nixon approved a series of Social Security benefit expansions, including costly legislation in 1972 that indexed future distributions to inflation. The cost of these expansions was substantially amplified by an error in

COMMON ATTRIBUTES OF PENSION BENEFIT EXPANSION CYCLES

The cycle of benefit expansions for veterans' pension plans shared many common attributes. Politicians repeated the cycle because the glacial pace of expansion occurred over multiple decades, making it difficult to detect the repetition. Several of the more important attributes included:

- **Equally Worthy Claims:** Pension plan eligibility often expanded when individuals who just barely failed to meet qualification criteria claimed that they were *equally worthy* of benefits. The problem is that after eligibility expanded, it created a new cohort of individuals who resided on the fringe of eligibility. Over many years, the repetitive process of expanding benefits to cover each new cohort of equally worthy claimants created a much larger group of eligible participants than was originally intended.
- **Election Proximity:** The passage of pension benefit expansions often coincided with major elections. The reason is because satisfying the demands of individuals with equally worthy claims often promised to tip a close election in one party's favor.
- **Correlation with Strong Economies:** There was a tight correlation between the strength of the economy and pressure to expand benefits. Tragically, quite a few benefit expansions of veterans' plans occurred immediately prior to major economic downturns, making the costs far more difficult to

bear in subsequent years. For example, in the case of the US Navy Pension Plan, a large benefit expansion occurred within months of the Panic of 1837. The combination of massive distributions and a collapse in asset values forced the plan to liquidate its entire portfolio of securities by 1841.

- **Chronic Cost Underestimation:** The financial health of pension plans often suffered from chronic cost underestimation. Sometimes it was purposeful, but often it was simply because politicians failed to anticipate how the populace would alter their behavior in response to plan changes. For example, incremental enhancements to veterans' plans invariably created powerful incentives for healthy veterans to report less severe disabilities. In more egregious cases, it also attracted claimants who fabricated disabilities or never even served in the military.

In combination, the above factors explain why veterans' pensions repeatedly experienced increases in costs. But the deepest root of the problem was the collective amnesia of politicians who allowed the cycle to repeat. The only saving grace for veterans' plans was the eventual mortality of beneficiaries. But beginning in the mid-1900s, the cycle of expansion became much more costly when permanent entitlements were launched in the aftermath of the Great Depression and World War II.



Harry S. Truman Library

President Lyndon B. Johnson signs the Medicare Bill at the Harry S. Truman Library, 1965.

an indexing formula, which was not corrected until 1977.

By the mid-1970s, most major entitlement programs that are in place today were well established. By the 1980s, mounting costs already weighed heavily on the federal budget. To address the nation's deteriorating finances, the last two decades of the 20th century were relatively light on program expansions. Unfortunately, politicians were also insufficiently aggressive on cost containment—even after considering the brief federal budget surpluses in the late 1990s. Spending on entitlement programs grew less rapidly, but still expanded from roughly 9% of GDP in 1980 to roughly 10% in 1999.

Laying the Final Straws

On March 23, 2010, President Barack Obama signed the Affordable Care Act (ACA) into law. The legislation fell short of the Democratic party's long-standing

goal of creating a national healthcare program. Political resistance forced Democrats to settle for expanded coverage and subsidies. The ACA was the last major entitlement program expansion in the 2000s. For the remainder of the 2010s, persistent fiscal deficits, which substantially increased in the aftermath of the Global Financial Crisis (GFC), had become too worrisome. But the 2020s would make the problem considerably worse.

In March 2020, the COVID-19 virus metastasized into a global pandemic. During and immediately after the crisis, the United States passed several fiscal stimulus packages, which added approximately \$5 trillion in federal spending. Federal deficits for the five fiscal years ending September 2024 ballooned to an average of nearly \$2.2 trillion per year, adding a total of \$10.8 trillion to the national debt. Making matters even worse, massive fiscal and monetary stimulus stoked inflationary pressures, which fueled higher interest

rates across the entire yield curve. In 2025, interest payments on the public debt are expected to be nearly \$1 trillion, exceeding the entire defense budget. Analysis by financial historian Niall Ferguson identified this as a worrisome inflection point because, in the past, it had preceded the decline of many empires. In combination, these developments sent a clear signal that the debt reckoning of the United States had arrived.

Debt Reckoning and the Challenge of Worthiness

"You will perceive, Sir, I have neither flattered the state nor encouraged high expectations. I have thought it my duty to exhibit things as they are, not as they ought to be."

—Alexander Hamilton

Over the past 235 years, politicians have engaged in many fierce debates over entitlement spending in all its forms. Central to that debate is determining who is worthy of benefits and how much is warranted. If the bar is set too low, entitlement programs encourage unnecessary dependency that is harmful to society, as well as the individuals who become overly dependent on them. If the bar is set too high, it causes needless suffering that could otherwise be mitigated at an acceptable cost.

The challenge of determining worthiness is made considerably more difficult because public perceptions vary depending on prevailing economic conditions. During periods of plenty, thresholds tend to decline and politicians feel pressure to increase benefits and expand eligibility. The problem, however, is that when economic conditions inevitably deteriorate, the shift in perspective is asymmetrical. The electorate is far less willing to pressure politicians to reduce benefits—even if the benefits never would have been granted had the period of economic plenty never occurred.

The asymmetric variability of the public's perception of worthiness is especially problematic when a nation experiences an extended, but anomalous, period of economic plenty. It is this scenario that lies at the heart of the entitlement spending problem in the United States in 2025. Social Security, Medicare, Medicaid and

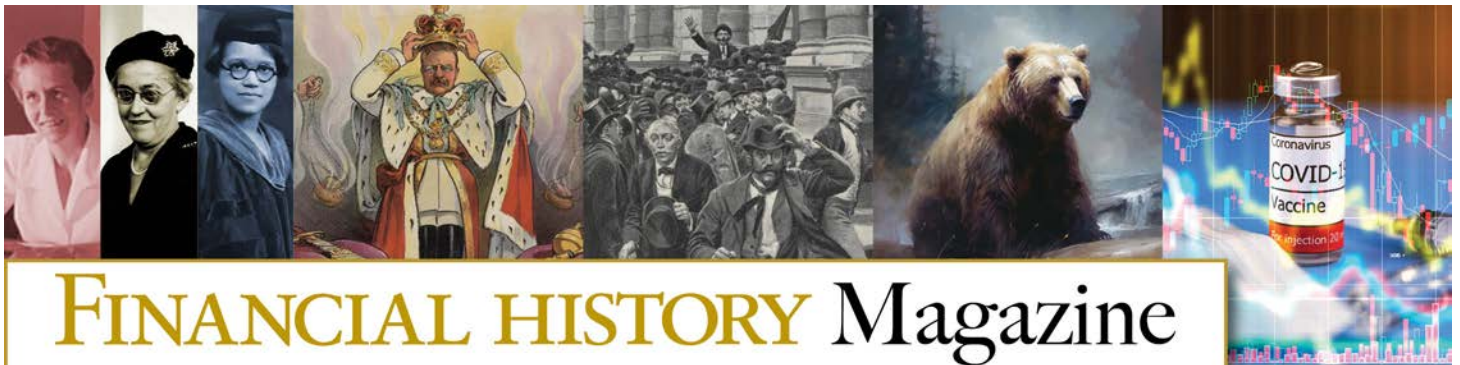
a variety of other assistance programs were established and/or expanded during the uniquely bountiful decades following the end of World War II. Many Americans erroneously concluded that these conditions constituted a new normal. Although the United States remains relatively wealthy today by global standards, it is not at a level that supports existing and projected levels of entitlement spending.

The inconvenient truth in 2025 is that few Americans can bear the thought of cutting entitlement benefits, in large part because a sizable percentage of citizens now depend on them. Politicians and economists who dare to propose efforts to reduce entitlement spending are vilified for their perceived cruelty. Absent from such criticism, however, is consideration of how unsustainable entitlement spending affects future generations. Demanding sacrifices from current generations is deemed immoral, but laying higher taxes on future generations and depriving them of similar benefits is considered acceptable. Even worse, few Americans consider the moral implications of failing to provide future generations with adequate borrowing capacity to fund the unpredictable, but inevitable, public dangers that Hamilton rightfully feared in 1790. It is this element of America's fiscal problem that qualifies it as the greatest financial challenge for current generations and an existential threat to future ones. **\$**

Mark J. Higgins, CFA, CFP® is a financial historian, experienced institutional investment advisor and frequent contributor to Financial History magazine. His book, Investing in US Financial History (Greenleaf Book Group, 2024), recounts the full financial history of the United States from 1790 to 2023.

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WARREN BUFFETT'S EARLY INVESTMENTS

Walt Disney Productions, 1966

By Brett Gardner

**“Practically perfect people
never permit sentiment to
muddle their thinking.”**

—*Mary Poppins*

WARREN BUFFETT'S PURCHASE of 5% of Disney's common stock is one of the most famous investments of his early career. Yet, at first glance, it was an abnormal investment for him to make at the time.

For one thing, the stock did not seem to offer investors much downside protection. Disney did not trade at a discount to tangible book; in fact, relative to its peers in the movie industry, it was actually quite expensive on this basis. The stock was selling for a cheap earnings multiple, but the movie industry was too unpredictable to rely on historical earnings. It takes a film studio two to three years to produce a film, completely uncertain of how it will ultimately fare at the box office. Disney's low price-earnings ratio in 1966 was based on the record profits of *Mary Poppins*, the fourth highest grossing film of all time at that point, so investors were justifiably concerned that Disney could not replicate its success. Finally, while Disney was more than just a studio—the company also owned Disneyland in California and was beginning to invest in the Florida park that would become Walt Disney World—these other assets were not simple to value either.

Aside from the risk that Disney's films would begin flopping at the box office, the company's corporate governance was the biggest concern for an investor. There were three concerns regarding how the company was managed. The

most obvious was key man risk. Walt Disney himself, the company's founder and executive producer-in-charge of all production, was irreplaceable. While his brother Roy retained the titles of company president and chairman, Walt controlled the company. He was a creative genius; constantly pushing the boundaries of the entertainment industry, from producing *Snow White* to building the world's most incredible amusement park. Walt's loss would be debilitating.

The second corporate governance concern was that Walt would destroy capital in his risky endeavors. Walt cared about the creative aspect of his work much more than creating shareholder value, often confessing he did not care about profits. Historically, his ventures worked out stupendously for shareholders, but there was always the risk the next one would stumble.

Finally, there was a history of dubious self-dealing between Walt and Walt Disney Productions. Although Buffett has never spoken about this aspect of the investment publicly, a May 1966 article in *Fortune* detailed this risk at length, suggesting he was almost certainly aware of it. This conflict of interest arose in 1952, when Walt formed WED Enterprises to provide his family with income outside of the Disney corporation. Walt Disney Productions consummated a contract with WED Enterprises to license Walt's name and execute a personal services contract shortly after the creation of WED. The agreement was so contentious that three Disney board members resigned over it, fearful of shareholder lawsuits (which did, in fact, arrive).

In 1965, Walt Disney Productions paid \$4 million to acquire WED Enterprises'

architectural, design and engineering department, along with the WED Enterprise name. So Walt changed the name of his personal company to Retlaw (or Walter spelled backwards). After Walt Disney Productions bought the design portion of the business, Retlaw was left with three sources of income.

First, Walt possessed the right to produce one movie a year outside of Walt Disney Productions, as well as the option to purchase up to a 25% stake in Disney's feature-length live-action films. Walt frequently exercised this right—Retlaw, for example, brought in over \$1 million of profit in 1965 on *Mary Poppins* alone.

The second revenue stream came from licensing Walt's name, earning the entity \$292,349 in 1965. Walt Disney Productions had the right to use the Walt Disney name in its corporate title and on films and TV shows in which Walt personally participated. Otherwise, the name had to be licensed and Retlaw would have to be paid.

The third piece was ownership of a steam railroad and elevated monorail at Disneyland. This component grossed \$2.5 million in 1965. Retlaw remitted 20% of this to Walt Disney Productions as rent for the right-of-way, but kept the other 80%.

Walt was charging the public company all sorts of fees, taking value for himself that should have accrued to Walt Disney Productions. It was hard for an outside shareholder to stop these shenanigans—though some tried—as Walt and his family owned nearly 40% of the company, with Walt and his wife holding around 16.5%. Walt justified the name agreement by saying it was a typical Hollywood arrangement and the company could count on having the rights to his name after he died; but this was a completely ridiculous

notion. There is no getting around the fact that Walt's insider dealings with Disney were problematic.

Finally, as if the valuation and corporate governance concerns were not enough, there was no particular reason to believe Disney's main business of filmmaking was a good one. The United States movie industry was in decline when Buffett made Disney an 8.5% position in his partnership, and no one was immune from the realities of Hollywood economics and its inherent volatility.

Tinseltown

The motion picture industry has three key branches: production, distribution and exhibition. The production process includes acquiring the story rights, developing a script, casting, filming and editing. These steps culminate in the creation of the negative film. Distributors sell, market and deliver the film to the theaters. Finally, the exhibitor displays the movie to the audience and collects the admission fees from theatergoers.

The cumulative collections are known as the box office receipts. The exhibitor remits an amount to the distributors, known as the film rental. The film rental, usually negotiated as a percentage,



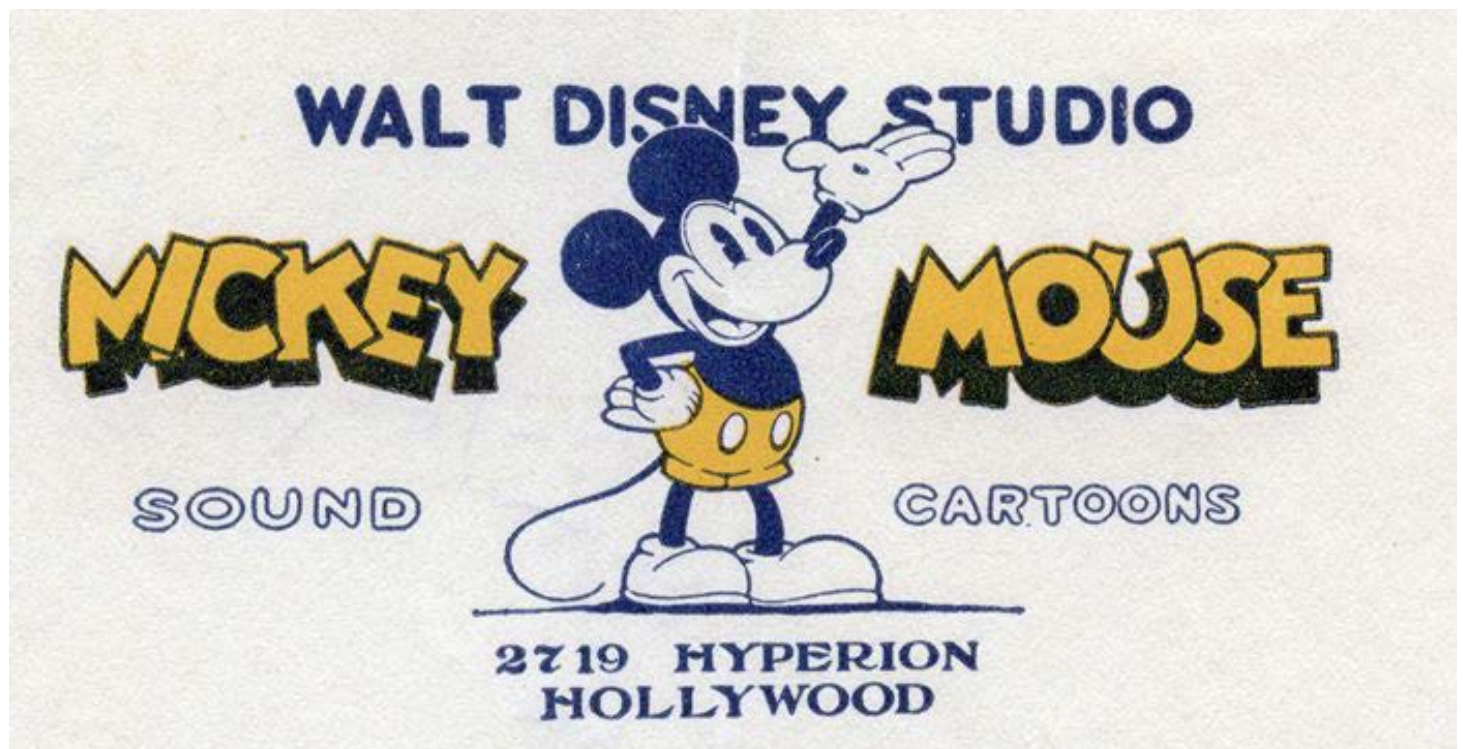
Publicity photograph of Walt Disney in his office, October 23, 1956.

typically amounted to about a third of the box office receipts. After deducting its fees, the distributor remits the remainder to the producer.

Distribution was the kingpin of the industry. Distributors were in charge of

manufacturing the negative and sending the film to the theater; they benefited from risk-bearing economies of scale and network effects. The larger firms aggregated risk and could afford to have a flop at the box office because of the high volume of films distributed, while a miss could cripple a smaller firm. Further, producers wanted their creations to be shown as far and wide as possible, so they wanted to work with the biggest distributors. Exhibitors would want to limit the number of distributors they worked with; it would be too cumbersome to speak with more than a handful of players.

The Golden Age of Hollywood began in the late 1920s, when eight major studios dominated all aspects of the business. These studios were known as the Big Five and Little Three. The Big Five—which included MGM, Warner Bros., 20th Century Fox, RKO and Paramount—were completely vertically integrated; they produced films, handled distribution and owned movie theaters. On the other hand, the Little Three—Universal, Columbia and United Artists—did not own theaters. In fact, United Artists merely distributed movies and did not produce them. The other two produced and distributed movies. While the Little Three lacked the vertical integration of the Big Five, they



Logo of Walt Disney Studio, 1928.



From 1926 to 1940, Walt Disney Studios was located at 2719 Hyperion Boulevard, pictured here in 1929.

had leverage over talent, independent producers such as Disney and exhibitors not owned by the oligopoly.

Not only did the Big Five own theaters, but they also owned the most profitable ones, controlling most of the first-run theaters in the biggest cities, ensuring that their films were shown in the best venues. Additionally, all the players engaged in monopolistic distribution tactics, such as selling multiple movies in a single bundle and requiring a film's purchase without allowing exhibitors to view the product. During the Golden Age of Hollywood, the major movie studios were quite profitable, but their profitability was based on tactics deliberately designed to reduce competition. Understandably, the government was frustrated and eventually sued all eight companies within the oligopoly.

Relief finally arrived for the independents in 1948, when a landmark Supreme Court ruling resulted in each of the major studios reaching consent decrees with the Department of Justice. The agreements, known as the Paramount Consent Decrees, required the Big Five to separate distribution from exhibition. Additionally, all players were barred from using certain prohibitive distribution practices that they had previously forced upon

independent theaters.

The Paramount Consent Decrees coincided with the rise of television. The percentage of US homes with a TV increased from 0.4% in 1948 to 92.6% in 1965. TV's emergence as an entertainment option delivered a devastating blow to movie attendance and box office receipts. The US box office declined by nearly 40% from 1948 to 1965, cushioned by rising ticket prices, while attendance fell by 70% over the same period. The demand destruction led to a decline in both the number of theaters and feature films released by the majors in the United States.

The falling number of films meant that studios had to change their strategies. One Paramount executive said, "Today, people go to see a movie; they no longer go to the movies. We can't depend on habit anymore. We have to make 'I've got to see that' pictures." In response to the changes in consumer behavior, studios spent more per film, raising the business risk of each one. A greater percentage of films lost money, and the studios became increasingly dependent on the biggest box office hits to drive profits.

Despite all these changes, the majors—a group that continued to exclude Disney due to the low number of films it

released—still dominated distribution. While independent producers increased their percentage of total films released after the Paramount consent decrees, they were still dependent on the majors to distribute the product. In addition, the independents relied upon the majors for financing, as the legacy players had the tangible assets needed to raise capital. Now down to seven after RKO failed due to Howard Hughes' mismanagement, the majors distributed 44 of 1965's 50 highest grossing films.

The bottom line: The movie business was struggling in 1966, and there was no reason to believe a movie studio would fit Buffett's famous definition of "a good business." Disney was still considered a smaller player in the industry, with the majors still releasing the vast majority of box office hits. Given these concerns, how did Buffett build the comfort he needed to take such a significant stake? Well, Disney was not just any studio.

The Ascent of the House of Mouse

Walt established his first animation business in 1921, when he founded Laugh-O-Gram Studio, based in his hometown of Kansas City. The small studio produced animated and live-action cartoons but struggled financially, declaring bankruptcy two years after its inception. After Laugh-O-Gram's receivership, Walt moved to California and founded Disney Brothers Cartoon Studio with Roy in 1923. This entity later merged with two other predecessor companies to form the Walt Disney Productions company Buffett later invested in.

While Walt possessed remarkable creative abilities, he was at the mercy of powerful distributors, and he struggled to build a business as a small company battling against giants. Disney experienced success in the 1920s with *Oswald the Lucky Rabbit* and *Alice's Wonderland* short cartoons, but after a contract dispute his distributor Charles Mintz poached the company's animators and made Oswald cartoons himself. Walt had given up his rights to the rabbit in his distribution agreement, and he therefore had no recourse to get his character back. The young animator persevered through this setback and developed Mickey Mouse shortly after. In 1928, Mickey made his public debut in

Steamboat Willie, one of the first synchronized sound cartoons.

Walt's dedication to the craft of animation helped create a significant gap between the company and its competitors. The company spent about twice as much on its short cartoons as its competitors did (shorts were brief films played prior to the feature film) and acquired an initial monopoly on a Technicolor process that enhanced the quality of the cartoons. Further, Walt formed a school at the studio dedicated to artist development. These investments resulted in a product vastly superior to his competitors' work, as evidenced by Disney winning every single Oscar for animated shorts during the 1930s.

However, the company was still a minor character in the entertainment industry. Animation was still a novelty. Walt began pushing animation's boundaries in 1934 when he started production on *Snow White and the Seven Dwarfs*, the first feature-length animated film. Walt's initial estimate for the film's production cost was around \$250,000. However, actual costs mushroomed and approached \$1.5 million, an amount surpassing each of Disney's 1935 and 1936 revenues. But the film was a booming success both with critics and at the box office, becoming the second highest-grossing film released in the 1930s, only trailing *Gone with the Wind*.

Snow White's success helped Walt Disney Productions raise capital through a preferred stock offering in 1940. But the 1940s were not prosperous for Disney. Films such as *Pinocchio* and *Bambi* struggled commercially, partially due to the closure of foreign markets during World War II. During this difficult period, the studio discovered its library had enormous value, a finding that would later be critical to Buffett's investment thesis. The reissuance of *Snow White* helped the company power through this turbulent decade, contributing significantly to net income in 1944 and 1945.

The 1950s spawned two critical turning points for the company. The first was the creation of Disney's own distribution arm. After a dispute with RKO over *The Living Desert*, Disney formed Buena Vista Film Distribution Co. in 1953. The creation of this subsidiary gave the company greater control over its movies and allowed Disney to reduce its distribution costs. Buena Vista severed the company's reliance on third-party distributors and



State Archives of Florida

Brothers Walt and Roy Disney and Florida Governor Haydon Burns officially launch the Disney World project in Florida at a press conference in the Egyptian Room of the Cherry Plaza Hotel in Orlando, November 15, 1965.

enabled Disney to capture more of the economics its films produced.

The second pivotal event of the 1950s was the construction of Disneyland. However, the famous Anaheim amusement park began as a source of contention between Walt and Roy. Roy had reservations about the project, so Walt worked on the park within his own personal company, the aforementioned WED Enterprises. Roy wasn't keen on the endeavor until Walt raised seed money from a bank to work on it.

Eventually, Walt needed partners to fund the park, which is when Disneyland came under the purview of Walt Disney Productions. This led to a complicated deal with ABC-Paramount in 1954. The arrangement involved ABC buying a TV program from Disney, investing in the park and providing loan guarantees. ABC received a much-needed TV show, headlined by Walt himself, while Walt secured the capital required to construct the Anaheim park. ABC and Walt Disney Productions each owned 34.5% of Disneyland, a publisher of Disney books had a 13.8% stake and Walt retained the rest. Roy told ABC that the park would cost between \$2 and \$5 million to open—it wound up costing \$17 million.

Despite costing substantially more than expected, the park opened in July 1955 and—after a rough opening day—was quickly successful. However, Walt's perfectionism eventually led to the ABC/Disney relationship deteriorating, as constant cost overruns frustrated the TV network. Walt Disney Productions eventually bought out all its partners, concluding with a \$7.5 million payment for ABC's share in 1960.

Disney was now an entertainment company, not simply a movie studio or a theme park business. Roy Disney stated, "Our diversified activities are related and tend to complement each other." Walt maintained a cohesive view of how the disparate parts fit together to build a stronger business. 💰

Brett Gardner is an investment analyst who has worked at multiple investment firms and is the author of Buffett's Early Investments: A New Investigation Into the Decades when Warren Buffett Earned His Best Returns (Harriman House, 2024), from which this article has been adapted.



Tulips, Paper Money, Limited Liability and Financial Crime

By Simon Constable

FINANCIAL INNOVATIONS often get overheated. Frequently there seems to be a mania, then a crash, which is followed first by state prosecutions and then acceptance of a new way of doing things. And, true to form, it has happened again seemingly in the form of cryptocurrency, which has fast become a cause célèbre.

Cryptocurrency began in January 2009 with the invention of Bitcoin; it built on the related blockchain technology introduced in 1991. One innovation was that the historical blockchain coding couldn't be retrospectively altered. It was like a ledger where the prior entries could not be changed. Another distinctive characteristic was there would only ever be a fixed number of Bitcoins available. Once they'd

all been discovered, or mined, there could be no more. This differentiated cryptocurrency from dollars, which get devalued as more and more bills get printed. For more than a few people, these two attributes were enough to embrace Bitcoin and blockchain.

Over the last 15 years through September 2024, the number of cryptocurrencies had grown to 9,844. However, it took a while before Wall Street got in on the game by introducing a crypto exchange-traded fund, making it tradable like a stock. The first such effort from the Winklevoss brothers failed to attain SEC approval in 2013. It took until 2021 for the SEC to approve a crypto exchange-traded fund based on features and until 2023 for the regulator to approve one based on spot prices, rather than futures contracts.

In 2019, as Wall Street was trying and failing to get in on the act, a young man named Sam Bankman-Fried decided to develop a crypto exchange named FTX. It quickly grew, reaching a million users by July 2021 and gaining a valuation of \$18 billion. From there, it went downhill.

On November 6, 2022, the head of competing crypto exchange Binance said it would withdraw billions of dollars of holdings from FTX. That, in turn, prompted something like a bank run as other people with crypto holdings at FTX decided to cash out as well. One commentator likened it to the now defunct investment bank Lehman Brothers, which quickly submerged from megastar status into nothing during the financial crisis of 2007 to 2009.

By November 11, FTX filed for Chapter 11 bankruptcy protection. A month later, on December 11, 2022, Bankman-Fried was arrested for "wire fraud, wire fraud conspiracy, securities fraud, securities fraud conspiracy and money laundering," and he was extradited to the United States from his base in the Bahamas.

He was found guilty, and in March 2024 was sentenced to 25 years in prison. It sounds disastrous, but as of October 7, 2024, FTX was set to pay its former customers back in full plus interest, with payments beginning in January 2025. That's no small feat.

Dutch satire of the Mississippi Bubble: A rooster-legged John Law sells Mississippi Company shares to eager investors, while King Midas distributes the proceeds to other men.

This financial scandal is not likely to disrupt the growth of cryptocurrency or blockchain. The reason is simple. It isn't uncommon for new financial innovations to run into epic problems when they are first introduced. Those blunders are frequently caused by a lack of understanding of the new financial product.

Tulip Mania

Take, for instance, the tulip mania of the 1600s in the Netherlands. Most of the time we hear or read that the country's population went mad throwing as much money as possible into the tulip market, which eventually ended in tears, including the jailing of a sailor who accidentally ate a tulip bulb mistaking it for an onion. The funny thing is, such events never happened.

Anne Goldgar, author of *Tulipmania: Money, Honor, and Knowledge in the Dutch Golden Age*, explained, "There weren't that many people involved, and the economic repercussions were pretty minor. I couldn't find anybody that went bankrupt. If there had been really a wholesale destruction of the economy as the myth suggests, that would've been a much harder thing to face."

However, certain details were true. There was frantic trading, and some people paid huge amounts for bulbs that, once flowered, may have lasted one week. And there was a breakdown in the trading that happened when some bulb buyers refused to pay the exorbitant prices they had

originally agreed to pay. That then led to a collapse in the prices.

A key element of the problem is there was no way to enforce payment. Contrast that with the current situation in the commodity markets. If a person engages in a futures contract to buy a specified volume of an item at a predetermined price, they are obliged to pay. The seller will get the money agreed on one way or another. And that may have been the gift that the tulip mania gave the world. Many buyers and producers of commodities depend on these regulated contracts to manage their risks with the knowledge that the contracts won't be reneged on by the other party. This guarantee is conducted through what is known as a clearing house—typically a well-financed corporation—that engages in both the buying and selling of a contract. If the clearing house is financially solid, then the traders should have no worries about a default, as the clearing house will cover the costs in the event that one party reneges on the contract.

The Mississippi Bubble

Another example occurred in the early 1700s, when Scotsman John Law became intent on propagating paper money to any country that was interested. At that time, it was a radical change from using precious metals (gold or silver) coins.

In 1716, Law found a taker in France and introduced the country's first paper money. Back then, the French government

was deep in debt. He also set up the Banque Générale that would print notes. He promised economic growth, as he believed more printed money in circulation would boost the economy. Ideally, the debt level would retreat. And that would be a superb outcome because the then French *de facto* ruler, The Duke of Orleans, was keen on reducing the country's debt burden. Therefore, the country bet on paper money.

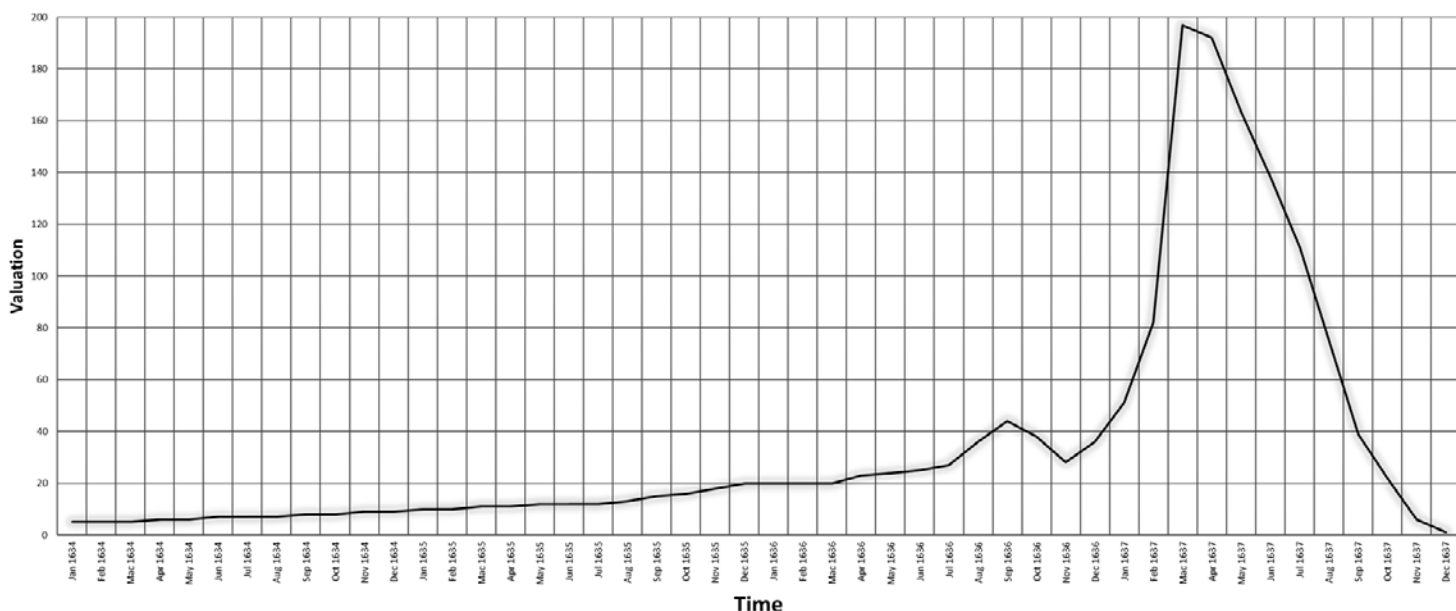
However, that wasn't the whole story. Law also gained "exclusive privileges" to trade in the French possession. These included Louisiana in pre-independent America. Effectively, these commercial rights gave him a foreign trade monopoly. On its own that may have been fine, but Law managed to combine his bank with the company.

The duke then encouraged investment in the company, which boomed—fueled by the newly introduced printed money, which had no limit. The bank bought up a slew of the stock in the company and then merged the two entities.

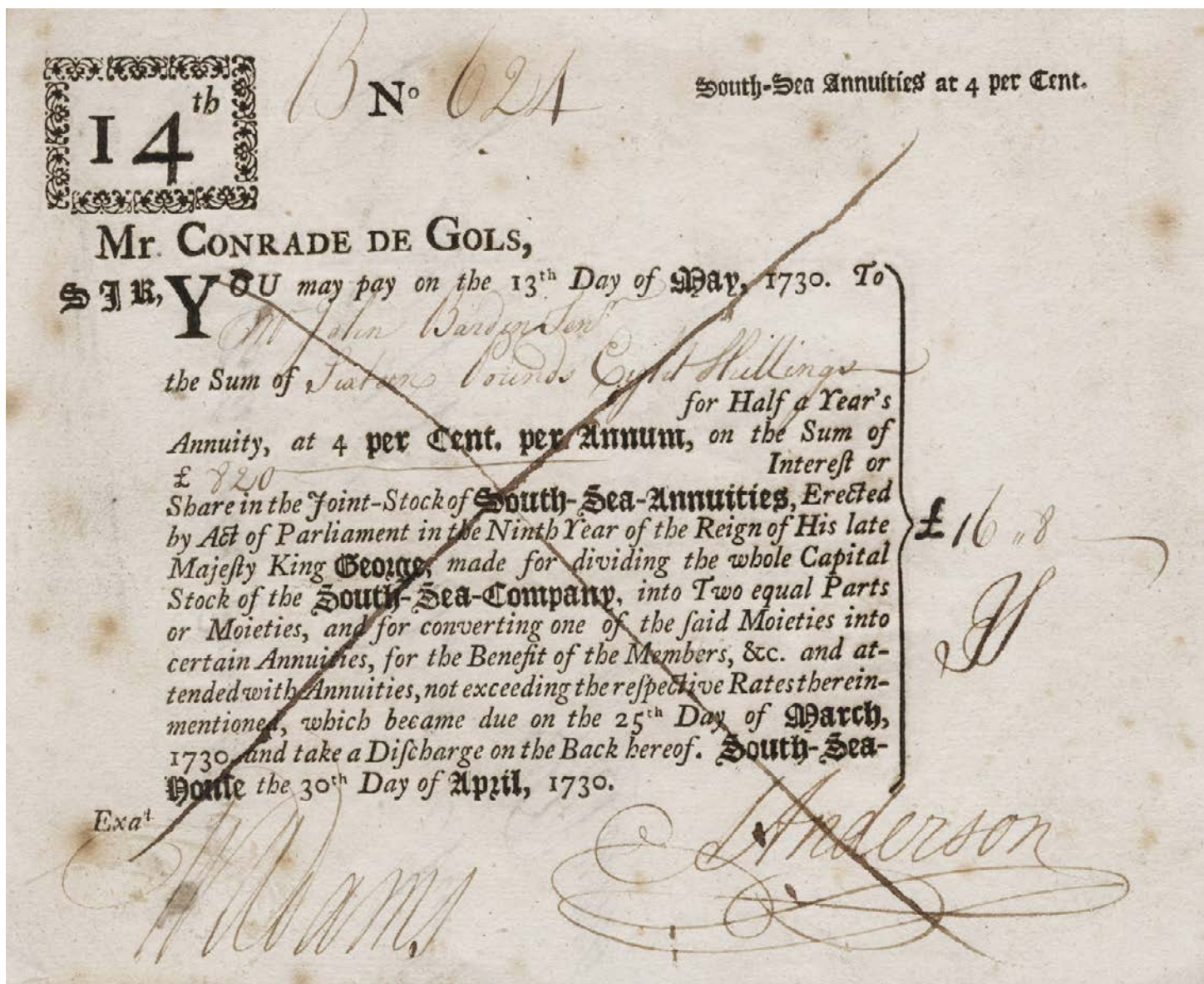
Unfortunately for everyone, especially the investors, the projected profits didn't materialize. At the same time, the government decided to sell shares in the company to the public and increase the level of money printing, which in turn created runaway inflation and a reduction in the spending power of the printed bills.

Eventually the stock's value plunged, which quickly crushed the stock market in France and other countries. Share prices dropped from 10,000 livres in September

Tulip Price Index from January 1634 to December 1637



Encik Tekateki



Annuities advance notice addressed to John Bardin, Jr. and signed by J. Anderson and W. Dams. Issued by the South Sea Company, London, and dated April 30, 1730.

1720 to a paltry 500 a year later. And France inherited massive debt, which necessitated tax increases in order to rid the country of the debt.

Of course, Law got blamed even though he was only partly responsible. His efforts can be seen as fraud, but also as a lesson about the dangers of excessive money printing, as well as betting on future company profits.

The South Sea Bubble and Joint Stock Companies

The South Sea Bubble disaster was a similar, but not identical, setup—this time based in the UK. Like France, the country's debt was a stress on the economy.

In 1711, parliament created the South

Sea Company as a way of dealing with the country's debts. Two years later, the company was granted a monopoly to trade in the Americas, with expectations for vast profits in the then-New World. It offered 6% interest on the stock. But things didn't work out too well because the booming trade failed to materialize.

Following this setback, King George took over the company in 1718, helping lift the stock price. But the company still wasn't making the profits it forecast. What it was doing was trading in its own stock, and company employees began encouraging friends to buy shares.

In 1720, the company took over the national debt. Again, the stock rallied and rallied and rallied some more. In September of that year, the bubble burst

and the stock price fell 80% from its peak. Famously, Isaac Newton—the renowned scientist and warden of the Royal Mint—had zero explanation for the boom and bust. Some people see the rise and fall of the South Sea Company as the first Ponzi scheme or the first financial crash.

French and British Similarities

Both the South Sea and the Mississippi Bubbles came at the dawn of capitalism and the financial markets. In the case of France, there was no real history from which people could learn. Paper money was in its infancy, and there was little understanding of how much or little paper to print to achieve a stable monetary system. Obviously, that's changed with the



FTX crypto exchange founder Sam Bankman-Fried in an interview during the Bitcoin 2021 conference.

benefit of hindsight and the world has embraced it.

Likewise, in Britain, joint stock companies were a relatively new innovation. One of the earliest was in 1606 in Virginia. These companies allowed people to invest in a company, but their risk was limited to what they put into the company. That was radically different from previous ventures where investors could be held liable for losses. In the longer term, the new system would encourage more investment by people and increased opportunities for entrepreneurs to experiment with new ideas.

Subprime Mortgages Catastrophe

In the late 1990s and early 2000s, bankers took on a radical approach to offering home loans. There had been government pressure to get more people on the homeownership ladder, as it was seen as a way to help lift people out of poverty and build wealth.

Typically, Americans had to show a solid credit record, enough earnings to more than cover the mortgage payments and have adequate cash for a down

payment. One thing stopping people with less-than-perfect financial health was the inability of banks to charge higher interest rates on riskier home loans. That changed in 1980, when the Federal Depository Institutions Deregulation and Monetary Control Act scrapped interest rate caps. That decade also saw a change in taxation that would allow US residents to offset the interest costs of a mortgage against income taxes. In addition, the Alternative Mortgage Transaction Parity Act freed up offerings to allow floating rate mortgages and balloon payments on mortgages. Initially, there weren't too many problems.

Then came the 2000s, where some bond market whiz kids decided to package mortgage loans into bonds that included layers of different loans; some were highly risky, and some were high quality. These so-called mortgage-backed loans had a similarly to collateralized bond obligations that even back in the 1980s were known as toxic waste. The business grew, fueling property development and homeownership.

But over time, it seems that the portion of loans offered to people with

less-than-perfect credit scores grew, and the level of credit rating sank like a stone. Some mortgage offerings were known as NINJA loans, an acronym for "No income, no job or assets."

The peak of the bubble came in 2007 and the housing market began to crash as dodgy borrowers increasingly defaulted on their loans. Quickly following that, banks began failing and lending ground to a halt.

The underlying problem with this innovation was not primarily lending to less-than-perfect borrowers, but rather, the question of how much interest to charge such borrowers given their higher risk.

Back to Crypto

Cryptocurrency and its related blockchain do have some legitimate uses. Most obviously, it can be used as a fixed value currency, and the blockchain technology can keep track of where the money has traveled around the banking system. The latter could easily help speed up money laundering reviews by financial institutions.

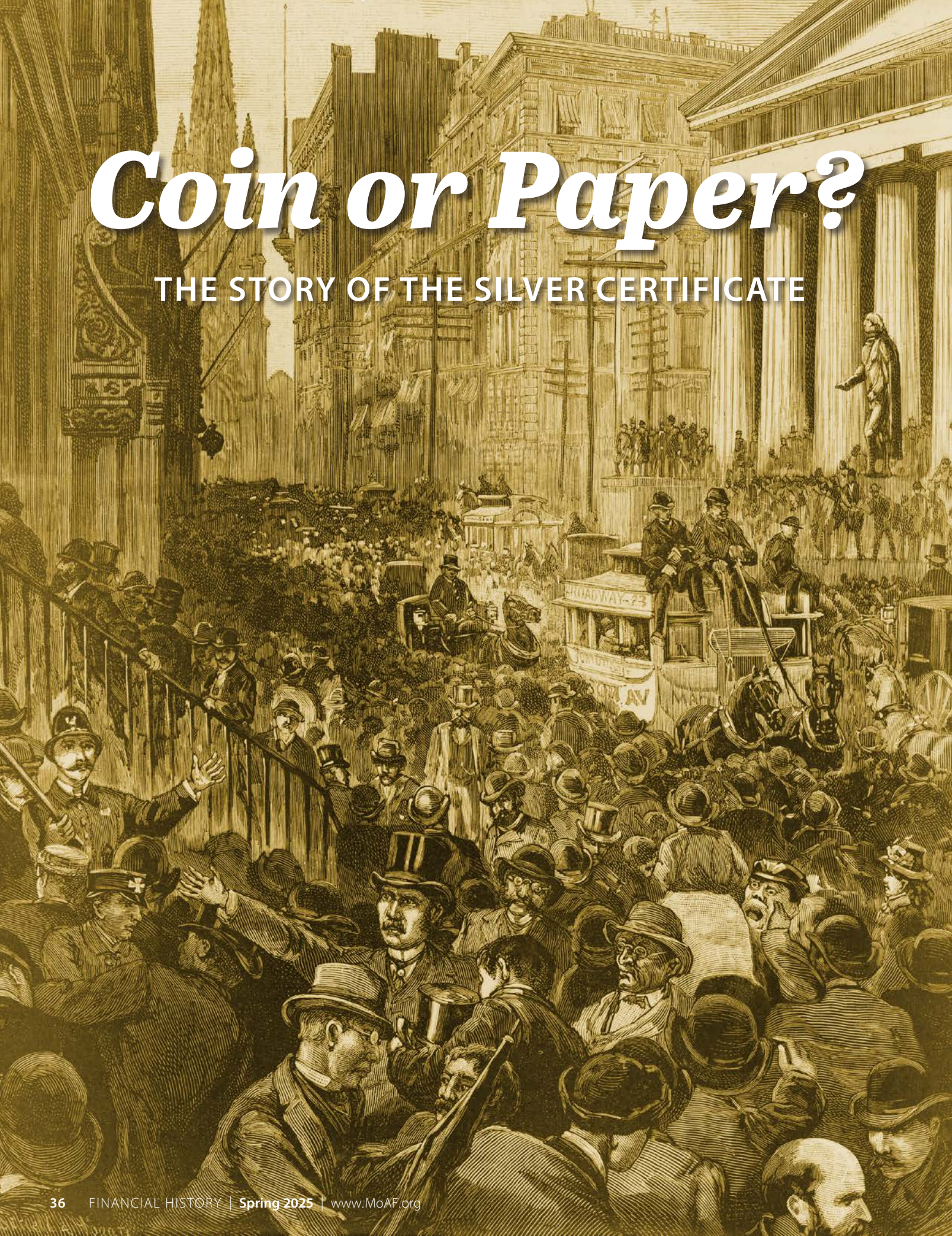
But there are further uses that allow blockchain technology to maintain thorough recordkeeping, such as a history of what changes were made to a home and what planning approvals were granted. Medical records can also be attached to blockchain, giving physicians access to a complete set of health data for individuals. In time, it seems likely that memories of crypto scandals will disappear and the benefits will become integral to the financial sector.

The real message from this look at financial history is that new financial products have often suffered embarrassing failures when they are first introduced. But as people begin to understand the benefits these innovations make to the financial system, as well as what needs fixing, financial innovators will no doubt embrace the new technology instead of shunning it. **\$**

Simon Constable is a fellow at the Johns Hopkins Institute of Applied Economics, a financial journalist and a broadcaster. You'll find his written work in Time magazine, The Wall Street Journal, Barron's, Forbes and other distinguished publications. He's a regular contributor to CBS Radio's "Eye on the World" with John Batchelor.

Coin or Paper?

THE STORY OF THE SILVER CERTIFICATE



By Eric Brothers

THE MONETARY HISTORY of the United States is complex, with a seemingly overwhelming variety of paper currencies in circulation, particularly in the 19th and early 20th centuries. In 1878, the Bland silver dollar (now called the Morgan dollar) and the silver certificate both made their debut. The certificates remained in circulation until 1964. However, in 1878 there were also greenbacks in circulation, a legal tender form of fiat money that was not backed by gold or silver reserves; it was introduced in 1861 during the Civil War. There were two types of greenbacks: demand notes issued from 1861 to 1862, and United States notes, first issued in 1862 to 1865. They remained in circulation until 1971.

There were also gold certificates in circulation from 1865 to 1933, which were backed by the gold reserve in the US Treasury. The circulation of national bank notes began in 1863. They were issued by banks with a federal charter that deposited bonds with the US Treasury. Those banks could then issue notes worth up to 90% of the value of those bonds. The federal government backed the value of the national bank notes—the issuance of which created a demand for the government bonds needed to back them. They remained in circulation until the establishment of the Federal Reserve in 1913. Additionally, there were also national bank gold notes issued by nine national gold banks in California from 1871–1883. So, then, why were Bland silver dollars and silver certificates issued in addition to greenbacks, gold certificates, national bank notes and national bank gold notes?

Newspaper illustration from *Harper's Weekly*, depicting Wall Street during the morning of May 14, 1884. Even though the economy was in a tailspin, Treasury was compelled to purchase \$2 million worth of silver every month because of Bland-Allison.



An uncirculated 1881 Bland dollar (now called the Morgan dollar) that was produced at the Philadelphia Mint. Relatively few silver dollars circulated. Silver mostly circulated in the form of silver certificates.

The Bland-Allison Act

In 1878, Congress passed the Bland-Allison Act (see "Return of the Silver Dollar: Free Silver and the Bland-Allison Act." *Financial History*, Fall 2024). That legislation was the result of two years of agitation by the Free Silver Movement, which worked for free silver (the ability to bring silver bullion to a US Mint and have it turned into unlimited coinage with no seigniorage charge), full bimetallism and the return of the silver dollar—dubbed the "Dollar of the

Daddies"—which had been demonetized and scrapped via the Coinage Act of 1873.

However, Bland-Allison did not legalize free silver and the gold standard remained in place—but the standard silver dollar did return in 1878. The paper money component in Bland-Allison was the silver certificate.

The Provision for Silver Certificates

An important section of the legislation added by Iowa Senator William Allison was the provision for silver certificates:

That any holder of the coin authorized by this act may deposit the same with the Treasurer or any assistant treasurer of the United States, in sums not less than \$10, and receive therefor certificates of not less than \$10 each, corresponding with the denominations of the United States notes. The coin deposited for, or representing, the certificates shall be retained in the Treasury for the payment of the same on demand. Said certificates shall be receivable for customs, taxes, and all public dues, and, when so received, may be reissued.

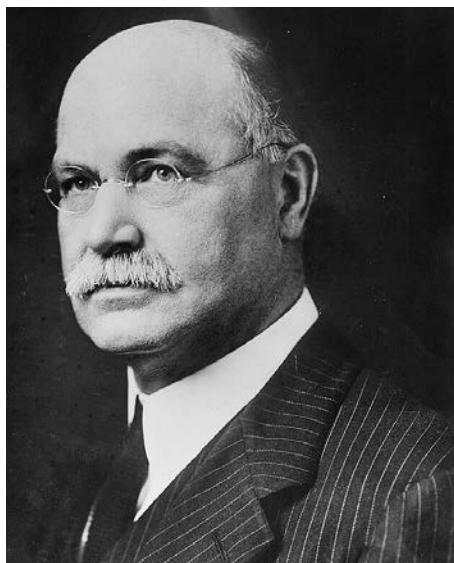
Silver Dollars for the Masses?

From 1876 to 1878, there was a mass movement clamoring for free silver and the return of the silver dollar. Economist F.W. Taussig wrote in 1890, "When the act of 1878 was passed, it seems to have been expected that the actual silver dollar would go into circulation without difficulty. This, at least, may be inferred from the provision of the act of 1878 which authorized the issue of silver certificates in denominations only of \$10 and more."

But was that indeed the case? Did silver dollars circulate beginning in 1878? Passage of Bland-Allison forced—yes, forced—the Treasury to purchase a minimum of \$2 million and a maximum of \$4 million worth of silver bullion every month—and mint silver dollars from that enormous amount of bullion as fast as humanly possible. With that level of production, it might seem that there were millions of Americans ready to take possession of an



Senator William B. Allison in 1870. He wrote the silver certificate provision in the Bland-Allison Act of 1878.



Economist F.W. Taussig in 1915. He wrote an important treatise on silver legislation and usage in America.



Economist J. Laurence Laughlin was very critical of United States silver policy.

endless supply of silver dollars to use every day in their commercial dealings. But, unfortunately, that was not the case.

The volume of silver dollars that Americans would absorb, writes Taussig, “reached an early and stubborn limit... and the silver certificate has been the form in which mainly the currency of the country has been affected.” The silver certificate, along with the dollar coins, comprised the nation’s silver currency. As the volume of silver dollars grew, only a small percentage of them ever reached the American public.

Introduction of Silver Currency

Silver dollars were initially produced in March 1878, and the first 15 months of silver certificate circulation was inconsequential. The end of June 1879 saw—out of a production of \$36 million silver dollars—about \$28 million worth of silver in Treasury department vaults. Taussig eloquently refers to those coins that were not represented by silver certificates as “dead silver.”

Around mid-1879, there was a slight increase in circulation of both dollars and certificates. And in 1880, the distribution of silver certificates increased dramatically, from less than eight million in August to more than 36 million in December. More certificates in the hands of the public resulted in less dead silver.

The first half of 1881 saw a contraction in the use of certificates. However, by the end of December 1881, the circulation of those notes totaled over 62 million. Additionally, the distribution of dollars and certificates together was within seven million of the total number that was coined.

The Treasury had adopted a new plan to force silver into circulation. September 1880 saw a Treasury department circular in which, writes Taussig, “in exchange for deposits of gold coin with the assistant treasurer in New York, drafts were offered on the sub-treasuries in the South and West, payable in silver certificates.” Specifically, the Treasury covered the cost of transporting cash to anyone who needed to remit to the South and West. The plan worked. Significant amounts of certificates were paid out, in exchange for deposits in New York City, by the sub-treasuries in New Orleans, St. Louis, Chicago and Cincinnati. Such payments were mostly of the two smallest denominations available at the time: \$10 and \$20.¹

Banks and Silver

At first, the new silver currency—both dollar coins and silver certificates—was found to be anathema to the banking industry. They paid it out first from among the cash they received and refused to hold it as a reserve. Banks did not

“boycott” silver currency; they received silver certificates on deposit. However, they paid them out to the public as quickly as possible. The new silver currency only entered into retail transactions and, in essence, it became the “large change” of society. It did not affect banking transactions whatsoever.

Thus, writes Taussig, “[silver currency] has not [been] affected by far the largest and most effective part of the circulating medium of the country.” All of the silver currency was in the hands of the public for daily transactions and the excess supply of it returned to the Treasury through the banks in payment of public dues. However, the status of the silver certificate, as well as banks’ attitude towards it, would change within a few years.

The Act of July 12, 1882

The Act of July 12, 1882 permitted an extension of the corporate existence of national banks for an additional 20 years. In order to eliminate low-denomination notes, however, the act made it compulsory that all national bank notes be redeemed via the Treasury. The old notes were replaced with new ones with a different design—and only in denominations of at least \$5. This action nearly eradicated the circulating small-denomination bank notes within a few years. The act also

clarified the lawful money standing of silver certificates, which had been unclear since their debut in 1878.

“The Report of the Comptroller of the Currency of 1882” states, “silver certificates...are authorized to be counted as part of the lawful reserves of national banks.” In addition, writes Taussig, “the decline in the circulation of national bank notes, which began after the maximum had been reached in the early part of 1882, contributed still more to make way for growth in the volume of silver circulating in the community.”

National bank notes were never counted as a bank reserve. Therefore, national banks preferred stocking silver certificates to national bank notes in their vaults. Additionally, silver certificates could be used to pay customs duties, among other taxes, while national bank notes could not. Overall, the years 1881, 1882 and 1883 saw silver currency taken in by the public as fast as silver dollars were struck at the mints. Of course, this was mostly in the form of certificates.

The Panic of 1884 and Silver

The year 1884 saw the extraordinary failure of the Marine National Bank and the investment firm (and Ponzi scheme) of Grant & Ward—both in May. They were followed by other bank suspensions, as well as the failures of numerous private bankers and brokerage houses and the collapse of railroad enterprises. The building of railroads virtually ceased, production of iron dipped significantly and bank loans and deposits decreased. This state of affairs greatly affected the circulation of silver currency.

Overall, the amount of currency possessed by the American public was stagnant from early 1884 to mid-1886. Still, the US Treasury was compelled by Bland-Allison to purchase a minimum of \$2 million per month to strike silver dollars, no matter how dire the economic situation. Writes Taussig, “Under these conditions the regular coinage of silver dollars necessarily caused dead silver to accumulate in the Treasury; and in July of 1886 the dead silver reached its maximum, nearly \$94 million.”

Unused cash stockpiled in bank vaults around the country. Bank reserves grew as deposits contracted. As other types of cash gathered in bank vaults, silver certificates accumulated in government vaults.



A \$5 United States note (greenback) issued in 1862.

The depression in trade saw receipts of the government—most notably from customs—fall off. Thus, silver certificates found their way into the Treasury. From 1882–1883, gold and gold certificates represented between 70–80% of customs receipts in New York City. However, starting in 1884, the amount of gold shrank, and for fiscal year 1884–1885, the proportion was less than 35%. This resulted in the net gold holding of Treasury dropping from over \$150 million at the beginning of 1884 to

under \$116 million at the end of May 1885. That was the smallest reserve of gold since the resumption of specie payments in 1879.

In a June 1885 essay entitled “Shall Silver Be Demonetized?,” Economist J. Laurence Laughlin wrote:

So long as gold is steadily diminishing and silver steadily increasing in the hands of the Government, we can see the crisis approaching. Could any measure be better calculated to



A \$5 series 1875 national bank note from the Vineland National Bank in Vineland, New Jersey.

prevent the revival of business and import uncertainty and distrust into the near future?... The Act of 1878 has caused an accumulation of silver, and the payment by the solid medium of gold is becoming difficult because of the rising tide of silver in the Treasury. Soon the gold road will entirely disappear, and we shall be afloat on an uncertain and fluctuating sea of silver.

Forcing Silver Dollars into Circulation

The Treasury, desperate to push the silver dollars out of their vaults, went as far as to pay the cost of shipping them from the sub-treasuries to literally any location in the United States where they were wanted. That premium led to significant quantities being sent for and used. In order to facilitate this policy, Treasury ended the issuance of greenbacks in denominations under \$5. The distribution of silver certificates was declining—however, circulation of silver dollars jumped by 10 million. That achievement took place primarily in the South, and it was a welcome relief to the Treasury.

However, the vast majority were sent back to the Treasury shortly thereafter. They collected in the tills of shopkeepers; from there they moved to local bank vaults; and finally, they were returned to the Treasury as payment for public dues. But were silver dollars wanted anywhere? Taussig writes, “They circulate more freely and permanently west of the Alleghanies than east of them; and among the negroes of the South the big pieces are favorites, and find a permanent lodgment.”

Low-Denomination Silver Certificates vs. National Bank Notes

August 1885 saw nearly 43 million silver certificates in the Treasury, which was the largest quantity since the passage of Bland-Allison. Treasury needed to do something about that. By then, it was understood that silver dollar coins didn’t circulate. However, it was important to get the public using the notes, as there was simply far too much dead silver in government vaults.

Four years after low-denomination national bank notes were abolished, Congress launched new low-denomination silver certificates. The Act of August 4, 1886, saw the Treasury department authorize



In 1886, lower denomination silver certificates were issued. Here is a \$1 series 1886 that carries the image of Martha Washington upon it.

notes in denominations of \$1, \$2 and \$5. This legislation came in response to the stockpiling of notes in the Treasury department. The distribution of silver certificates in denominations over \$10 dipped from 1886 to 1891, as they were displaced by the new lower-denomination notes.

In a 2007 working paper for the Federal Reserve Bank of Cleveland, Bruce Champ and James B. Thomson write, “Within two years of the passage of the act of August 4, 1886, low-denomination silver certificates (ones and twos) accounted for around 20% of the total amount of silver certificates in circulation, and five-dollar silver certificates made up nearly one-third of total circulation.”

Taussig writes, “the situation has been greatly modified by the issue of silver certificates of very small denominations, and by the sharp decline of the [national] bank note circulation...” When examining gross circulation—national bank notes that actually were used in daily business transactions in the community—we see

there was a diminution of \$100 million from 1886 to 1889. “With their disappearance,” writes Taussig, “a void has been made in the large change of the public, in which the silver certificates have been readily absorbed.” Not coincidentally, the revival of business activity occurred when the \$1, \$2 and \$5 silver notes first were distributed. From 1886 to 1889, the volume of silver currency gained continuously on the total mintage of the dollars, and, writes Taussig in 1890, “since the beginning of 1889, practically all of the dollars have been in circulation, chiefly, of course, in the form of certificates.”

Champ and Thomson write that from 1883 to 1892, “the decline in national bank note circulation...was to a large degree demand driven. In this view, the decline in bank note issue occurred because the public and financial institutions replaced holdings of national bank notes with holdings of silver certificates.”

From 1882 to 1891, national bank note issuance decreased by more than \$190



Series 1890 Treasury note for \$1,000. It was nicknamed the “The Grand Watermelon” because of the color and shape of the zeros on the reverse.

million, while during the same period silver certificate issues rose by over \$248 million. In 1891, over 15% of silver certificates in circulation were \$1 and \$2 bills. According to Champ and Thomson, “national banks had difficulty keeping their notes in circulation for a number of years. From 1886 to 1891 more than 25% of the notes sat idle in bank vaults.”

1886 was the year that low-denomination silver certificates were first issued. Not coincidentally, it was also the year that saw a noticeable increase of idle national bank notes. Overall, the years 1882 to 1893 saw the circulation of national bank notes fall by around 50%.

Yet Another Form of Currency?

In 1890, the Sherman Silver Purchase Act became law. While Bland-Allison compelled the Treasury to buy a minimum of \$2 million worth of silver bullion each month, this new legislation forced the government to purchase 4.5 million ounces of

silver every month—and strike \$2 million worth of silver dollars per month. This law required the Treasury to buy this silver with a special new issue—Treasury notes (issued from 1890 to 1893)—that could be redeemed in either silver or gold. This resulted in a dramatic expansion in the circulating currency, however without a proportionate growth of the nation’s gold reserve. This foolhardy legislation triggered a run on the Treasury’s gold reserve and culminated in the Panic of 1893. Concurrently, the issuance of silver certificates continued unabated along with the mintage of silver dollars.

Why did the United States need so many different forms of paper currency in circulation at the same time? There were unbacked greenbacks, gold certificates backed by the gold reserve, national bank notes backed by government bonds, national gold notes, silver certificates backed by silver dollars and the Treasury notes that drained the nation’s gold reserve.

The currency that made the least sense—after the Treasury notes—was the

silver certificate. The silver dollar was never a circulating medium from 1794 to 1873. So then why was it forced upon the nation in 1878 via Bland-Allison? Even though the United States was on the gold standard, there was a *de facto* silver standard for a single form of currency: the silver certificate. It appears that the Sherman Silver Purchase Act—which sparked one of the most severe economic depressions in American history—benefited silver mine owners to the detriment of literally everyone else in the country. \$

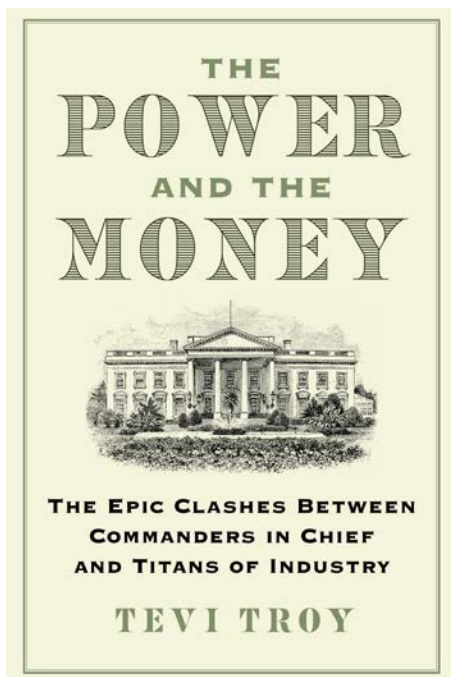
Eric Brothers is a frequent contributor to Numismatic News. He also writes for ANS Magazine, a publication of the American Numismatic Society in New York. He is the author of the book Berlin Ghetto: Herbert Baum and the Anti-Fascist Resistance (Stroud: Spellmount, 2012). This is his eighth article for Financial History.

Note

1. This Treasury practice was temporary. It was suspended between October 15, 1882, and March 2, 1883, and it was discontinued in January 1885.

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The Power and the Money: The Epic Clashes Between Commanders in Chief and Titans of Industry

By Tevi Troy
Regnery History, 2024
278 pages

IT NEEDS TO BE SAID at the outset that Elon Musk's relationship with President Donald Trump is breaking new ground in showing how corporate Chief Executive Officers (CEOs) can interact with sitting presidents. Anyone doubting the historic importance of a good working relationship between people in those positions should read Tevi Troy's *The Power and the Money*. Its core message is simple: Presidents and CEOs have been working closely with each other (some would say using each other for their own purposes) for decades. The reason for CEO/presidential interactions seems clear. Over time, the federal government has become increasingly involved

in the activities of many industries. To many CEOs' displeasure, its behavior has often taken the form of laws or regulations aimed at restricting the impact of innovative corporate activities.

The book proceeds across time from the 1870s to the 2020s as Troy follows 28 presidents' interactions with 18 CEOs. Each chapter describes several presidents' dealings with multiple CEOs. Troy provides some interesting insight into the presidents' reasons for seeking those collaborations. He also tells how various CEOs used their influence with presidents to shape certain federal policies to benefit their firms. It is clear that some relationships were quite hostile (President Franklin D. Roosevelt and Henry Luce), while others were unusually chummy (President Ronald Reagan and Jack Welch). The even-handed author describes both successful and unsuccessful episodes of presidential/CEO interplay. He notes that many CEOs with long tenure in office have had both, and often with presidents of both political parties.

Several chapters tell how CEOs such as John D. Rockefeller, Steve Jobs and Bill Gates had little or no interest in working with the occupants of the White House while pursuing their companies' profit-making agendas. Troy does note, however, that Jobs' successor, Tim Cook, and Gates' acolyte, Mark Zuckerberg, saw the wisdom of establishing a cordial relationship with Washington very early in their tenures. He also traces the evolution of Lew Wasserman from a CEO who paid little attention to Washington as he built his business to one who became particularly adept at convincing presidents to do his bidding.

Every reader will have a favorite story that exemplifies the *quid pro quo* behavior of presidents and CEOs. This reviewer was particularly struck by the running narrative detailing several presidents' interactions with Lee Iacocca. In 1971,

at the urging of the Ford Motor Company executive, President Richard Nixon delayed the introduction of air bags in cars by more than a decade. Nine years later, President Jimmy Carter supported the Chrysler Corporation CEO's request for a \$1.5 billion bailout, i.e., loan guarantee package. Just three years later, President Ronald Reagan refused that same CEO's request to cancel the warrants attached to that package. It is easy to agree with Troy's suggestion that Iacocca is emblematic of the modern CEO who initially wants the federal government to stay off his company's back and later decides he wants that same government on his side.

Because Troy's narrative is focused on the presidents, his chapters follow their time in office rather than the tenures of the CEOs. So it takes several chapters to discover the full extent of presidential interactions with long-tenured CEOs—fully half of the executives he discusses in the book. The story that suffers most from this treatment is Troy's description of the federal government's interest in Microsoft from the introduction of MS-DOS in 1981 to the years after Bill Gates' retirement as CEO in 2000.

Despite the book's subtitle, none of its stories describe what could universally be considered "Epic Clashes Between Commanders in Chief and Titans of Industry." But that does not mean *The Power and the Money* should be ignored. Indeed, it should be savored and appreciated for providing some historical context to the motives and interactions of presidents and CEOs alike. \$

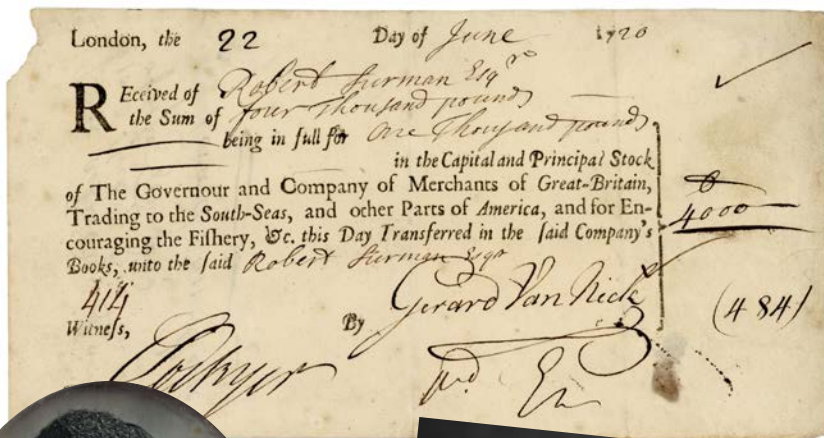
Michael A. Martorelli is a Director Emeritus at Fairmount Partners in Radnor, Pennsylvania, and a frequent contributor to Financial History. He received his MA in History from American Military University.

TRIVIA QUIZ

HOW MUCH DO YOU KNOW ABOUT FINANCIAL HISTORY?

1. In how many years since 1950 has the United States had a balanced federal budget?
2. What was the highest-performing mutual fund of the 20th century, with an annualized return of over 29% from 1977 to 1990?
3. What former chairman of the New York Stock Exchange was appointed chairman of the SEC by President George W. Bush?
4. What CEO of General Electric was particularly friendly with President Ronald Reagan?
5. In what company did Warren Buffett purchase a 5% stake of common stock in 1966?
6. What bank—established in 1865 following the abolition of slavery—permanently closed its doors on July 2, 1874?
7. What legislation was the result of two years of agitation by the Free Silver Movement?
8. Who served as the last president of the Freedman's Bank?
9. In what year was the federal gas tax last raised?
10. What company's 1929 collapse caused what is often referred to as the first financial crash?

1. Four (1999, 2000, 2001 and 2002)
 2. Fidelity's Magellan Fund
 3. William H. Donaldson
 4. Jack Welch
 5. Walt Disney Productions
 6. The Freedman's Bank
 7. The Bland-Allison Act
 8. Frederick Douglass
 9. 1993
 10. South Sea Company



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